INDONESIA

Public Expenditure and Financial Accountability (PEFA)

Assessment Report 2017

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INDONESIA

Public Expenditure and Financial Accountability (PEFA)

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Abbreviations and Acronyms

AAIPI	*Asosiasi Auditor Internal Pemerintah Indonesia* (Indonesian Government Internal Auditors Association)
ABP	Annual Borrowing Plan
ADD	*Alokasi Dana Desa*
ADIK	*Arsitektur dan Informasi Kinerja* (Performance Architecture and Information Structure)
AGA	Autonomous Government Agencies
AIPEG	Australia Indonesia Partnership for Economic Governance
APBD	*Anggaran Pendapatan dan Belanja Daerah* (Regional Budget)
APBN	*Anggaran, Pendapatan dan Belanja Negara* (State Budget)
APBN-P	*Anggaran, Pendapatan dan Belanja Negara Perubahan* (Revised State Budget)
ASN	Annual Strategy Note
BAKN	Public Account Comittee
Bappeda	*Badan Perencanaan Pembangunan Daerah* (Regional Planning Agency)
Bappenas	*Badan Perencanaan Nasional* (National Planning Agency)
BCG	Budgetary Central Government
BDD	*Bidan di Desa* (village midwives)
BETF	Bank Executed Trust Fund
BI	Bank Indonesia
BiB	Budget-in-Brief
BKF	*Badan Kebijakan Fiskal* (The Fiscal and Planning Agency)
BKN	*Badan Kepegawaian Negara* (National Civil Service Agency)
BLU	*Badan Layanan Umum* (Public Service Agency)
BOS	School Operational Assitance
BPK	Supreme Audit Institution
BPKP	*Badan Pengawasan Keuangan dan Pembangunan* (Finance and Development Supervisory Agency)
BPH Migas	Donwnstream Oil and Gas Agency
BPM	Business process management
BPS	*Badan Pusat Statistik* (Central Beurau of Statistics)
BR	Bureaucracy reform
BRISA	Bureaucracy Reform Implementation Self-Assessment
BHMN	*Badan Hukum Milik Negara* (State-owned Legal Entitiy)
BUMN	*Badan Usaha Milik Negara* (State-owned Enterprise)
CEISA	Customs and Excise Information System
CMT	Common measurement tool
COA	Chart of Accounts
COFOG	Classification of the Functions of Government
COSO	Committee of Sponsoring Organizations of the Treadway Commission
COTS	Commercial-off-the-shelf (system)
CRM	Compliance risk management

CTF	Child Trust Fund
CTO	Central Transformation Office
DAK	*Dana Alokasi Khusus* (Special Allocation Fund)
Dana Desa	Village Fund
DAU	*Dana Alokasi Umum* (General Purpose Fund)
DBH	*Dana Bagi Hasil* (Revenue Sharing Fund)
Dekon	Deconcetration
DFAT	Australia's Department of Foreign Affairs and Trade
DFATD	Canada's Department of Foreign Affairs, Trade and Development
DG	Directorate General
DG SAM	Directorate General State Asset Management
DG FB	Directorate General of Fiscal Balance
DID	*Dana Insentif Daerah* (Regional Incentive Fund)
DIPA	*Daftar Isian Penggunaan Anggaran* (Budget Documentation)
DJPK	*Direktorat Jenderal Perimbangan Keuangan* (Directorate General of Fiscal and Balance)
DJPPR	*Direktorat Jenderal Pengelolaan Pembiayaan dan Risiko* (Directorate General of Financing and Risk Management)
DKI	*Daerah Khusus Ibukota (*Special Capital Region*)*
DMFAS	Debt Management and Financial Analysis System
DPD	*Dewan Perwakilan Daerah* (Regional Representative Council)
DPL	Development policy loan
DPR	Parliament
DPRD	*Dewan Perwakilan Rakyar Daerah (*District Parliament*)*
DSA	Debt Sustainability Analysis
DTP	*Direktorat Transformasi Perbendaharaan* (Directorate of Treasury Transformation)
EDIS	External Debt Information System
EIS	Excecutive Information System
EKPPD	*Evaluasi Kinerja Penyelenggaraan Pemerintah Daerah*
EU	European Union
FMIS	Financial Management Information System
GAAP	General Accepted Accounting Principles
GDP	Gross Domestic Product
GFMRAP	Government Financial Management and Revenue Administration Project
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GGP	Governance Global Practice
GGP	*Gaji Pegawai Pusat* (Central Government Civil Servant Salary)
GICS	Government Internal Control System
GOI	Government of Indonesia
GPF	Governance Partnership Facility

GRPB	Gender Responsive Planning and Budgeting
HDI	Human Development Index
IA-CM	Internal Audit Capability Model
ICB	International competitive bidding
ICT	Information and Communications Technology
IG	Inspectorate General
IG MOF	Inspectorate General of Ministry of Finance
IHPS	Submission of Audit Summary to Parliement
IMF	International Monetary Fund
INPRES	*Instruksi Presiden* (Presidential Instruction)
IPEA	Initiative for Public Expenditure Analysis
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
ISP	Institutional Support Program
IT	Information technology
ITMS	Integrated Taxpayer Management System
K/Ls	Line ministries
Kanwil	*Kantor Wilayah* (Regional Office)
KKN	Collusion, Corruption and Nepotism
KLIP	Information and Complain Service Center
KMK	Decree of Minister of Finance
KOMPAK	*Kolaborasi Masyarakat dan Pelayanan untuk Kesejahteraan* (Collaboration between Communities and Services (Providers) for Prosperity)
KPA	Key process area
KPI	Indonesian Broadcasting Commision
KPK	Corruption Eradication Commission
KPPIP	*Komite Percepatan Penyediaan Infrastuktur Prioritas* (Committee for Acceleration of Priority Infrastructure Delivery)
KPPN	Local Treasury Office
KUA PPAS	Preparation of General Budget Policy and Temporary Budget Ceiling
KUP	Law of Taxation General Provision and Procedure
KUR	*Kredit Usaha Rakyat* (Credit for Bussinesses Program)
LAKIP	*Laporan Kinerja Pemerintah* (Government Performance Report)
LGDP	Local Government and Development Project
LHKPN	*Laporan Hasil Kekayaan Pejabat Negara* (Wealth Reporting System for State Officials)
LI	Local Inspector
LKKL	Ministry/Institution Financial Report
LKPP	National Public Procurement Agency
LKPP	*Laporan Keuangan Pemerintah Pusat* (Central Government Financial Report)
LPSE	*Layanan Pengadaan Secara Elektronik* (Electronic procurement services)

LPSK	Witness and Victim Proection
LRA	*Laporan Realisasi Anggaran* (Statement of Budget Realization)
LTO	Large Taxpayer Office
MC	Management Committee
MCR	Management Committee Representatives
MEMR	Ministry of the Energy and Mineral Resources
MenPAN-RB	*Kementrian Pendayagunaan Aparatur Negara dan Reformasi Birokrasi* (Ministry of State Apparatus and Bureaucracy Reform)
MNE	Multi-National Enterprise
MOF	Ministry of Finance
MOH	Ministry of Health
MOHA	Ministry of Home Affairs
MOEC	Ministry of Education and Culture
MPN	*Modul Penerimaan Negara* (centralized and integrated state revenue collection systems)
MPN G2	Electronic State Revenue Management System Generation 2
MPR	*Majelis Permusyawaratn Raykat* (People's Consultative Assembly)
MPWH	Ministry of Public Works and Housing
MTBF	Medium-Term Budget Framework
MTDS	Medium-Term Debt Strategy
MTEF	Medium-Term Expenditure Framework
MTMF	Medium-Term Macro-Economic Framework
MTSN	Medium-Term Strategy Note
MTTF	Medium-Term Fiscal Framework
Musrenbang	*Musyawarah Perencanaan Pembangunan* (National Planning Consultative Meeting)
MYC	Multi-year contract
NHA	National health accounts
OBI	Open Budget Index
OCDS	Open Contracting Data Standard
OGI	Open Government Initiative
OTA	Office of Technical Assistance (of the US Department of the Treasury)
PAC	Policy Advisory Committee
Pagu Indikatif	Budget Circular
PBB	Performance Based Budgeting
PEA	Public Expenditure Analysis
PEFA	Public Expenditure and Financial Accountability
PEMNA	Public Expenditure Management Network in Asia
PER	Public Expenditure Review
Perki	*Peraturan Komisi Informasi* (Information Commision Decree Regulation)
Perpres	*Peraturan Presiden* (Presidential Regulation)
Perppu	Government Regulation In lieu of Law

Permenpan	Minister of State Apparatus Empowerment and Bureaucracy Reform Decree Regulation
PFM	Public Financial Management
PFM MDTF	Public Financial Management Multi-Donor Trust Fund
PIB	Notice of Imported Good
PIM	Public Investment Management
PINTAR	World Bank's tax modernization loan
PIU	Project Implementing Unit
PKPT	Annual Audit Program
PLN	*Perusahaan Listrik Negara* (State-Owned Electricity Company)
PMK	*Peraturan Menteri Keuangan* (Ministry of Finance Regulation)
PMO	Project Management Office
PNPB	Other non-tax revenues
PP	*Peraturan Pemerintah* (Government Regulations)
PPATK	Financial Transaction Analysis and Investigation Unit
PPK	Contract Commitment Officer
PPP	Public–Private Partnership
PSN	National Strategic Projects
PSSU	Project Secretariat and Support Unit
PTKP	Non-taxable income bracket
Puskemas	*Pusat Kesehatan Masyarakat* (Community Health Center)
Pusintek	*Pusat Informasi dan Teknologi (*MOF's Center for Information and Technology)
QAIP	Quality Assurance and Improvement Progr**am**
RAAP-ID	Rapid Assessment and Action Plan for Improvement in Service Delivery in Indonesia
RAPBN	*Rancangan Anggaran Pendapatan dan Belanja Negara* (Excecutive Budget Proposal)
Rastra	*Beras Sejahtera* (Government's rice subsidy program for the poor)
Renja-KL	*Rencana Kerja Kementerian dan Lembaga* (Ministry/Institution Annual Work Plan)
Renja-SKPD	*Rencana Kerja Satuan Kerja Pemerintah Daerah* (Work Unit Work Plan)
Renstra	*Rencana Strategis* (Five-year Strategic Plan for Line Ministries)
RETF	Recipient Executed Trust Fund
RIA	Regulatory Impact Assessments
RKA-KL	*Rencana Kerja dan Anggaran Kementerian Negara* (Annual Budget Plan)
RKP	Government Annual Work Plan
RTO	Regional Tax Offices
ROSC	Observance of Standard and Codes
RPJMN	Government of Indonesia's Medium-Term Development Plan
SAI	Supreme Audit Institution
SAKIP	*Sistem Akuntabilitas Kinerja Pemerintah* (Government Performance Accountability System)
SAKTI	Financial application system for the spending unit
SAP	Government Accounting Standards

SAPER	Social Assistance Public Expenditure Review
SARA	Semi-autonomous revenue agency
Satker	*Satuan Kerja* (Unit of central government line ministry)
SECO	Swiss State Secretariat for Economic Affairs
SEMEFPA	Support for Enhanced Macro Economic and Fiscal Policy Analysis
SIKD	*Sistem Informasi Keuangan Daerah* (Regional Financial Information System)
SIPTL	Monitoring system on the follow-up actions
SITP	*Direktorat Sistem Informasi dan Teknologi Perbendaharaan* (Directorate of Treasury's Technology and Information System)
SKK Migas	Special Task Force for Upstream Oil and Gas Business Activities
SKPJ	Compliance System for Service User
SMEs	Small and medium enterprises
SNG	Subnational Government
SOA	Service oriented architecture
SOE	State-Owned Enterprises
SP2D	Recording payment authorizations
SPAN	*Sistem Perbendaharaan dan Anggaran Negara* (Government Financial Management Information System)
SPKN	National Financial Audit Standards
SPSE	*Sistem Pengadaan Secara Elektronik* (e-Procurement System)
STC	Short-term consultant
TA	Technical assistance
TDR	Treasury dealing room
TEPRA	Evaluation and Monitor Budget Realization of Central and Subnational Governments Team
TI	Transformation Initiative
TOR	Terms of reference
TP	*Tugas Pembantuan* (Co-administrative tasks)
TSA	Treasury single account
TTL	Task team leader
ULP	*Unit Layanan Pengadaan* (Procurement Service Unit)
UN	United Nations
USAID	United States Agency for International Development
UU-APBN	Annual Budget Law
VFM	Value for Money
e-VAT	Electronic Valued Added Tax
WB WBG	World Bank World Bank Group

Republic of Indonesia

Public Expenditure and Financial Accountability (PEFA)
Performance Assessment Report
Based on PEFA 2016 Framework

Final report

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK'**.

PEFA Secretariat
May 16, 2018

Executive Summary

Introduction

Indonesia has experienced strong economic growth and steady poverty reduction over the past decade, but the end of the commodity boom, accompanied by slowing poverty reduction and rising inequality, has put pressure on the country's overall economic development. Indonesia's average annual growth rate was 5.6 percent in the period 2001-12, equivalent to a GDP per capita of about US$3,500. The national poverty rate was halved to 11.2 percent in the period from 1999 to 2015, largely through sustained growth and job creation. However, the decline in commodity prices and demand slowed growth to 4.8 percent in 2015 and 5.1 percent in 2016. The pace of poverty reduction also began to stagnate around this time, with a near zero decline in 2015, accompanied by rising inequality, from 30 points in 2000 to 41 points by 2014, as measured by the Gini coefficient.

The downturn in economic growth underscores the importance of the overall public financial management (PFM) reform agenda to ensure that the delivery of public services continues to function effectively. Indonesia first embarked on a broad-based reform of its PFM systems more than a decade ago. Following the 2002 Government White Paper, a new legal framework was adopted through Law No. 17/2003 on State Finance, Law No. 1/2004 on State Treasury, and Law No. 15/2004 on State Finance Accountability and Audit. These laws created a new institutional framework for budget management and a major reorganization of the Ministry of Finance (MOF). The reforms that were started included, among others: (i) consolidation of the treasury single account (TSA), and improvements in cash and debt management, and cash-flow forecasting; (ii) improvement in asset management (an automated asset management registration system is being completed, as is a stocktaking system and an appraisal of government assets); (iii) unification of the routine (recurrent) and development budgets; (iv) enhancing public sector procurement; and (v) strengthening of the audit and accounting functions.

The monitoring and evaluation of PFM reform has been supported and monitored, including through Public Expenditure and Financial Accountability (PEFA) performance assessments. This PEFA assessment is the third such assessment in Indonesia, with previous assessments having taken place in 2007 and 2012. As agreed with the government, the two primary objectives of the assessment are: (i) to establish a new baseline based on the upgraded 2016 PEFA framework for measuring PFM progress going forward; and (ii) to provide a basis for dialogue with the government on its future PFM reform needs and for development partners to plan their programs of support accordingly.

The scope of the PEFA exercise covers the general central government budgetary institutions receiving budget allocations from the central government's budget, i.e., the line ministries and agencies, oversight institutions and parliament. The activities of public corporations, public-private partnerships (PPP) and social security funds are covered only to the extent that they receive central government budget allocations and from the perspective of fiscal risks and contingent liabilities to the central government. Similarly, subnational governments are covered through the central government transfers they receive and oversight practices.

The assessment analysis period covers the previous three completed fiscal years (2014, 2015 and 2016), with a cut-off date of August 2017, and with audited accounts for 2016. The three-year fiscal period from 2014 to 2016 was marked by a political transition and a change of government composition that affected the policy agenda. For this reason, additional to the PEFA framework requirement, this report introduces the recent and ongoing reform actions undertaken by the government, with a view to updating all the corrective and normative policy decisions taken to improve the system. It offers a perspective on the progress still to be made, for example, regarding public investment management, public asset management, fiscal strategy and results-oriented information, all of which represent critical areas that the government intends to strengthen.

This assessment was carried out by the Government of Indonesia together with the World Bank, in coordination with development partners and international donors, to promote full ownership by the government through an iterative consultation and validation process, both at technical and political levels. This was both to ensure the government's endorsement and build a constructive dialogue on relevant international PFM standards and performance improvements.

Assessment of PFM System Performance

The assessment demonstrates that Indonesia has already established a strong legal and regulatory framework that aligns with most international standards on PFM, but the effectiveness of the PFM systems in place and the monitoring of performance can still be strengthened. Overall, the average PEFA performance score is slightly below B, which is above the basic level of performance broadly consistent with good international practices.

PFM in Indonesia has important strengths, primarily associated with the development of instruments that have allowed prudent fiscal management and control of budget execution. The recent introduction of fiscal rules to support major development initiatives has been effectively followed. The roll-out of the financial management information system (FMIS), together with the implementation of strict cash consolidation management rules, a well-defined treasury management system at the central government level, consistency between the accounting and budgetary classifications, and the convergence of national accounting with international accounting standards for the public sector, have created a solid platform for automation and integration of PFM processes for the improved quality of financial reporting and oversight.

However, there are still some weaknesses related to the strategic allocation of resources, the accountability of budget implementation and the efficient delivery of public services. These are areas in which reform efforts are being made but where these efforts have yet to realize full performance based on this assessment. Among the most important of these ongoing efforts are: (i) improving budget credibility by strengthening the budget forecast, establishing consistent budgeting framework, and increasing revenue mobilization and compliance of tax and non-tax collection; (ii) improving the system capacity to deliver infrastructure outcomes by harmonizing the selection, implementation and monitoring of capital expenditure with formal guidelines and oversight, efficient management of public assets, as well as consolidation and monitoring of public procurement operations; (iii) the inclusion in the budget of performance information, linking resource planning in the most appropriate manner for better service delivery; (iv) promoting effective reporting of subnational budget execution; and (iv) strengthening internal audit and external audit, and control measures.

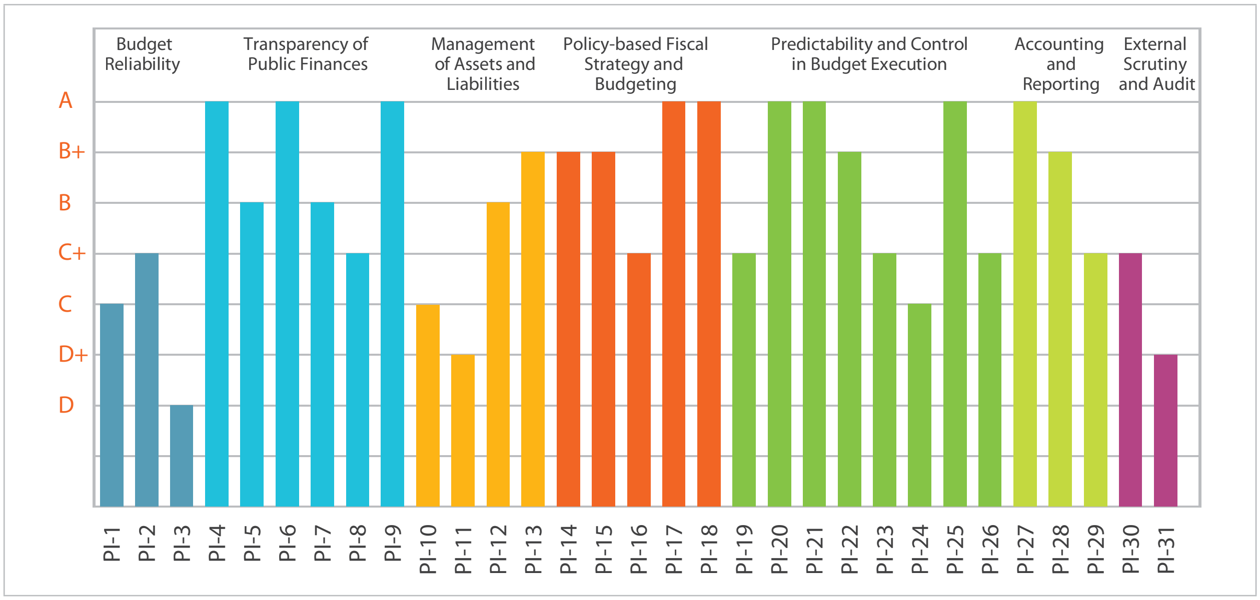
The results of the PEFA Indonesia 2016 Assessment for each of the 31 performance indicators are summarized below:

Table 1: Summary of PEFA scores by pillar

Core of PFM Performance	Performance Indicators	Score				Total Indicators
		A	B/B+	C/C+	D/D+	
Budget reliability	**PI-1 to PI-3**			**2**	**1**	**3**
Comprehensiveness and Transparency	**PI-4 to PI-9**	**3**	**2**	**1**		**6**
Management of Assets and Liabilities	**PI-10 to PI-13**		**2**	**1**	**1**	**4**
Policy-based fiscal strategy and budgeting	**PI-14 to PI-18**	**2**	**2**	**1**		**5**
Predictability and Control in budget execution	**PI-19 to PI-26**	**3**	**1**	**4**		**8**
Accounting, Recording and Reporting	**PI-27 to PI-29**	**1**	**1**	**1**		**3**
External Scrutiny and Audit	**PI-31 to PI-31**			**1**	**1**	**2**
Total		**9**	**8**	**11**	**3**	**31**

The assessment shows that 17 of the 31 indicators scored either "A" or "B", both considered to be above the basic alignment with international good practice. The remaining indicators received scores of either "C" or "D", which suggests basic alignment with the international standards for a "C" and weak performance for a "D", both presenting further opportunities for strengthening PFM practices.

Figure 1: Summary of PEFA scores by indicator



Impact on the Main Objectives of Public Finances

The strengths and weaknesses identified in this PEFA assessment illustrate how the performance of PFM systems impact on the three main budgetary outcomes, as discussed below:

Aggregate Fiscal Discipline is supported by: a clearly defined fiscal strategy; the capability to prepare robust projections of macroeconomic and fiscal performance; the proper reporting of revenue and expenditure operations outside the budget; and sufficient control over fiscal risks and commitments to maintain expenditures during budget execution.

The government's capacity to define a solid macro-fiscal framework using modeling instruments aligned with international practices and to follow strict fiscal rules supports a consistent and sustainable fiscal strategy. The medium-term fiscal framework (MTFF) provides a medium-term approach with forward estimates and fiscal outcomes and follows the fiscal rules on the total annual budget deficit, set at a maximum 3 percent of GDP and the outstanding (foreign and domestic) debt at not more than 60 percent of GDP. Operations outside the government's financial reporting comprise insignificant amounts, representing less than 1 percent of the total budgeted revenue and expenditure. Detailed financial reports of the extra budgetary units (BLUs)—de facto included in their line ministries' budgets, but with some spending flexibility—are submitted within three months of the end of the fiscal year. The management of commitments and payments of the main expenditures through DG Treasury is set against hard commitment ceilings from the approved state budget. Expenditure arrears are strictly controlled by disbursement rules and commitment control systems and, as a result, the amount of arrears or accounts payable is limited.

Fiscal risks to the central government budget are identified and disclosed in considerable depth in the notes to the budget proposal and financial statement. Fiscal risks related to SOEs' operations are monitored. SOEs report on a quarterly basis to the MOSOE and send their audited financial statements to the MOF. Meanwhile, control over subnational governments' risks is improving, with 100 percent of districts and provinces submitting their budget realization reports for FY 2015.

However, this generally positive aggregate fiscal discipline outcome is partially limited by weaknesses in contingent liabilities and revenue administration.

Contingent liabilities are identified and provide a clear and comprehensive overview of the exposure to all significant risks, although the types of risks to which the budget is exposed in the case of PPP-related guarantees are not adequately covered at present. Meanwhile, there is a lack of information pertaining to explicit contingent liabilities outside the infrastructure sector, for example those relating to health and social security schemes, with no data available on these liabilities. In addition, data on the quantification of, and provision for, implicit contingent liabilities, some of which may be considerable, are unavailable, for example the potential need to bail out large SOEs with non-guaranteed debts.

Revenue administration in Indonesia is an area where alignment to international practice is particularly needed. The tax administration is piloting an integrated risk-based Compliance Improvement Plan but has not fully implemented a structured and systematic risk assessment process for assessing, ranking and quantifying taxpayers' compliance risks. The application of risk criteria is conditioned by the access to reliable and comprehensive data from internal and external sources through a proper tax information management system, which has still to be developed. In addition, the monitoring and the ageing of arrears are complex due to the definition of collectability of tax obligations, and a significant amount of uncollectable tax debts have to be written off.

Strategic Allocation of Resources is led by the existence of budget rules and circulars that assign predictable budget ceilings for the annual budget formulation; ensure the submission of timely, complete and relevant information in the draft budget submission for consideration by parliament; ensure the regular and timely approval of the annual budget law before the effective date of the corresponding fiscal year; the bottom-up and top-down budget formulation process and adoption of a five-year national strategic plan defining priorities in the allocation of public funds among sectors and institutions; and regular monitoring and assessment of performance information of the line ministries.

The budget calendar is detailed and strictly adhered to, and provides the budgetary units with approved expenditure ceilings before their own budgeting processes start so that they can set their priorities. The budget preparation process is clearly defined, planned and implemented in a timely and participatory manner. Parliamentary scrutiny over budget formulation and execution is based on comprehensive information, with detailed revenue and expenditure estimates.

However, these outcomes are being undermined by poor budget reliability, inconsistent implementation of the medium-term expenditure framework (MTEF) and annual budgeting process, and the absence of consolidated performance information by sector in the budget as a whole.

Repeated deviation between the original planned budget and outturns reflects the lack of political consensus over revenue and expenditure projections. The regular budget formulation process is undermined by systematic in-year budget revisions (APBN-P) that impact the alignment with strategic planning and funding predictability, which ultimately affects the quality of spending. The systemic issue stems from the significant over-estimation of revenue forecasts, indicating interference with the forecasting model, thereby undermining the revenue collection performance.

Inconsistencies can be seen in the preparation of the MTEF on a sectoral basis, which affects the estimates used in the MTFF. The medium-term ceilings are defined for the subsequent years but only for reference purposes and are subject to change in the fiscal or sectoral policies, or in adjustments to the costing parameters. As a result, the budget submission fails to establish the linkages with the previous years' estimates, and to describe the range of scenarios underlying the government's risk management strategy and the fiscal impact of new budget policy proposals.

There is less transparency on the performance information of service delivery. This information is formally available but requires quality improvement to facilitate accountability on the outputs of financial execution through the delivery of public services. Evaluation reports on line ministries' performance and execution at the subnational level are currently not published.

Efficient Service Delivery is supported by: the transparency of key budgeting and fiscal information; the transfer of revenue collections to the TSA system, which allows the availability of funds for the commitment of expenditures; and the systems for allocating inter-governmental transfers, which are defined through a rule-based system with a formula and data calculation that allow for some transparency and predictability for subnational governments.

However, these are undermined by weaknesses in subnational government reporting, and a weak public investment management, public procurement and oversight system.

The weakness in public investment projects starts in the upstream phase, where the planning capacity is limited and pre-feasibility and selection criteria are not systematically applied, and continues into the downstream phase, where the consolidated monitoring of decentralized implementation is lacking and processes for the costing, quality assurance and reporting on value-for-money (VFM) and fiduciary integrity are not harmonized. Detailed technical and costing guidelines are missing at the central government level. The management of public investments is decentralized to the line ministries, with no standardized quality assurance for socioeconomic and environmental evaluations, and pre-feasibility studies. Project selection involves Bappenas and the MOF mostly on budgetary criteria, and project monitoring is devolved to the implementing agency.

In procurement, the system suffers from a lack of central monitoring and reporting. Procurement operations are managed through e-procurement, but this does not include all contracts. Competitive procurement methods are estimated to cover about 70 percent of total contracting value. The procurement indicator is affected by the absence of an independent administrative complaints mechanism or appeals process to settle disputes efficiently. Data on single-source procurement operations, the resolution of complaints and procurement statistics are not published.

Weak monitoring of subnational government spending. The inter-governmental fiscal transfer system lacks predictability and is still not fully transparent, undermining the quality of local spending. For example, the underlying weight and data of the DAU formula are only made available to subnational governments after the allocations have been made. The DAK *Fisik* allocation is volatile and the criteria for proposal-based allocations is unclear. Meanwhile, the system for publishing a subnational budget realization summary is not well established as there are no regular and systematic procedures in place on publishing the report.

Effective external audit and scrutiny by parliament reveal a mixed oversight performance between the external audit function and parliament on ex-post budget scrutiny. The line ministries' budget execution is audited and audit opinions consolidated in BPK public reports, but not published separately. The response rate by the government to audit recommendations is low (less than 50 percent) and not monitored on an annual basis. On the parliamentary side, scrutiny on the follow-up to budget execution audits is less effective than the ex-ante budget review. Hearings are often not held with the authorities of the agencies concerned and no conclusions on the audit recommendations are issued. Given the lack of comprehensive, transparent and effective follow-up on external audit and budget reports, parliamentary scrutiny cannot be deemed effective and conducive to transparent accountability.

Evolution of the PFM System Performance

The broad evolution of PFM performance, or "where did the needle move" between 2011 and 2016, was assessed based on the comparable review at the indicator level using the same framework to the data available in 2017. The results are shown in Annex 5**.**

The assessment over time shows significant improvements in the PFM systems linked to predictability and control over budget execution, particularly for treasury and cash management with the roll-out of SPAN. The performance linked to the fiscal strategy and policy-based budgeting is also sustained over time, with improvements in fiscal sustainability and the debt management strategy.

Several areas are still not fully aligned with international good practices that had been identified in the previous assessment. In the area of planning and budgeting, the gap between the strategic framework and the medium-term horizon in the 5-year plan and the annual budget process is still an issue that has an impact on the effectiveness of service delivery and the reporting on budget performance. The need for further integration of the payroll and procurement platforms confirms the necessity for further IT integration and interface of the government database systems. The lack of reporting on aggregate resources and the allocation of resources at the frontline delivery unit level is still identified. Tax administration systems have been strengthened and are in the process of adopting international practices. The risk-management approach focusing on the large taxpayers' office and the overall tax compliance improvement strategy has not yet been fully implemented. Information on competition in procurement is still not fully consolidated. The audit standards integrating risk-management elements are derived from a broad tax compliance improvement plan. Finally, line ministries' performance reports and audit findings by external auditors are still not circulated and followed up on, and ex-post legislative scrutiny still lacks effectiveness.

The Ongoing and Planned Reform Agenda

The PEFA assessment highlights PFM reform areas that have already been identified by the government as priorities.

The most recent push for further PFM reforms has been set out in President Joko Widodo's development goals—the *Nawa Cita*. To achieve these goals, the RPJMN 2015-2019 emphasizes the need to: (i) strengthen state revenue administration capacity and improve tax policy in order to increase state revenue from taxation and non-tax sources; and (ii) strengthen planning and budgeting institutions to improve efficiency of budget allocation, the composition of spending and the effectiveness (in terms of impact) of public expenditure.

Meanwhile, the MOF, as Indonesia's main PFM institution, introduced 20 strategic initiatives based on five principles: (i) achieving high levels of tax, excise and duty compliance through excellent service and rigorous law enforcement; (ii) implementing prudent fiscal policies; (iii) managing the central balance sheet with minimum risk; (iv) ensuring that revenue funds are distributed efficiently and effectively; and (v) attracting and developing best-in-the-class talent by offering competitive employee packages. The decree also spans over three strategic areas that cover PFM issues—revenue, treasury and budgeting

Collecting more revenue is a top priority for the government. The recent tax administration reform actions include: (i) restructuring DG Tax's organization based on functions and taxpayer segments; (ii) streamlining business processes by utilizing appropriate information technologies to ensure certainty in the delivery of taxpayer services; (iii) improving human resource management based on job competency and performance; and (iv) strengthening governance by introducing a code of conduct for all 32,000+ employees of DG Tax. Since 2016, many reform initiatives have been launched and are ongoing, and should lead to performance improvements. The Tax Reform Team (*Tim Reformasi Perpajakan*) was also established in December 2016 to oversee a comprehensive tax administration and policy reform program aimed at boosting Indonesia's tax-to-GDP ratio to 16 percent by 2019.

Most recently, reforms have been implemented to improve coordination between Bappenas and the MOF to address the issue on the effective functioning of planning and budgeting. Finance Minister Regulation PMK 163/2016 covers the process of rolling over and updating the forward estimates and indicative ceilings and has been used in the preparation of the 2018 budget based on the first year forward estimate included in the previous budget. A special IT application on the MTEF has been developed by the Australia Indonesia Partnership for Economic Governance (AIPEG) to support the roll-over of the forward projections, and the tracking of changes in the forward estimates between budgets. Early in 2017, the government issued Government Regulation No. 17/2017 on the Harmonization of Planning and Budgeting for the National Development Process. This regulation provides a framework to synchronize the planning and budgeting processes between Bappenas and the MOF. The regulation is already effective for the 2018 budget cycle. The government's ambitious cascading strategic-planning framework also has the potential to strengthen the effectiveness of program-based budgeting, together with the reliability of budget allocations to line ministries and sectors to achieve a more efficient use of resources.

Development partners have actively supported the government's initiatives by backing PFM reforms. The multi-donor trust fund, PFM MDTF, was established in 2007 to support the government's PFM reforms in general and the implementation of the World Bank-financed Government Financial Management and Revenue Administration Project (GFMRAP) in particular. The trust fund has been in operation for a decade and has contributed significantly to the government's PFM reform agenda. The next steps will need to focus on articulating the findings of the PEFA assessment and other lessons learned into a strategic plan and road map for the implementation of PFM-MDTF reform activities.

Summary of Results

The PEFA performance assessment conducted in 2016/17 (based on the 2016 PEFA methodology) reveals the following results for the indicator scores in general terms and for each relevant dimension, as follows:

Table 2: Performance Status at-a-Glance

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i	ii	iii	iv	
Pillar One: Budget Reliability							
PI-1	Aggregate expenditure outturn	M1	C				**C**
PI-2	Expenditure composition outturn	M1	B	C	A		**C+**
PI-3	Revenue outturn	M2	D	D			**D**
Pillar Two: Transparency of Public Finances							
PI-4	Budget classification	M1	A				**A**
PI-5	Budget documentation	M1	B				**B**
PI-6	Central government operations outside financial reports	M2	A	A	A		**A**
PI-7	Transfers to subnational governments	M2	C	A			**B**
PI-8	Performance information for service delivery	M2	B	B	C	C	**C+**
PI-9	Public access to fiscal information	M1	A				**A**
Pillar Three: Management of Assets and Liabilities							
PI-10	Fiscal risk reporting	M2	B	D	C		**C**
PI-11	Public investment management	M2	C	C	D	D	**D+**
PI-12	Public asset management	M2	A	C	C		**B**
PI-13	Debt management	M2	A	A	C		**B+**
Pillar Four: Policy-based Fiscal Strategy and Budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	A	B	B		**B+**
PI-15	Fiscal strategy	M2	C	A	A		**B+**
PI-16	Medium-term perspective in expenditure budgeting	M2	C	A	C	C	**C+**
PI-17	Budget preparation process	M2	A	A	A		**A**
PI-18	Parliamentary scrutiny of budgets	M1	A	A	A	A	**A**
Pillar Five: Predictability and control in budget execution							
PI-19	Revenue administration	M2	B	C	B	C	**C+**
PI-20	Accounting for revenue	M1	A	A	A		**A**
PI-21	Predictability of in-year resource allocation	M2	A	A	A	B	**A**
PI-22	Expenditure arrears	M1	B	A			**B+**
PI-23	Payroll controls	M1	B	B	A	C	**C+**
PI-24	Procurement management	M2	C	B	C	D	**C**
PI-25	Internal controls on non-salary expenditure	M2	A	A	A		**A**
PI-26	Internal audit	M1	A	C	A	C	**C+**
Pillar Six: Accounting and reporting							
PI-27	Financial data integrity	M2	A	A	A	A	**A**
PI-28	In-year budget reports	M1	A	B	A		**B+**
PI-29	Annual financial reports	M1	A	A	C		**C+**
Pillar Seven: External Scrutiny and Audit							
PI-30	External audit	M1	A	A	C	B	**C+**
PI-31	Parliamentary scrutiny of audit reports	M2	C	D	C	C	**D+**

1. Introduction

1.1 Rationale and Purpose

Efficient utilization of overall resources through sound public financial management (PFM) continues to be a key priority of the Government of Indonesia (GOI). To this end, good governance and oversight are priorities in the government's reform agenda.

Over the past decade, major reforms have been undertaken and significant advances have been achieved in the area of PFM. The GOI continues to demonstrate its commitment to the reforms set out in the 2002 White Paper.[1] However, the timing and sequencing of those reforms reflect capacity constraints, and changing socioeconomic and political priorities. Nonetheless, the main objectives outlined in the White Paper have remained the same, namely: (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 public procurement systems; (v) improving government accounting and audit functions; (vi) reforming the civil service to improve the quality and performance of the workforce; (vii) improving debt management; (viii) strengthening regional PFM; and (xi) strengthening governance and anti-corruption measures.

Previous Public Expenditure and Financial Accountability (PEFA) evaluations were undertaken in 2007 and again in 2012. Results of the 2007 assessment reflected a mixed picture of strengths and weaknesses in Indonesia's PFM systems. Key strengths pertained to transparent and comprehensive budget documentation, a well-defined budget process with both the executive and legislative branches adhering to the schedule, a budget classification that complied with international standards and efforts to strengthen the external audit function. Weaknesses, on the other hand, were identified across several dimensions of budget execution, such as financial reporting, and weak recording of cash, payroll controls and internal audit, as well as high variation between budgets and outturns.

The PEFA 2012 assessment stated improvements in the quality of the country's PFM systems, together with increased transparency and independent oversight in public expenditures management, as reflected in five PEFA pillars: comprehensiveness and transparency of the budget; policy-based budgeting; predictability and control in budget execution; accounting, recording and reporting; and external audit and scrutiny. However, the assessment underscored that many reforms remained "work in progress".

There have not been any comprehensive PFM diagnostics conducted since PEFA 2012. There were, however, a number of analytical reviews on specific components of the PFM systems produced as part of the World Bank's development policy lending (DPL) operations and the ongoing Public Financial Management Multi-Donor Trust Fund program (PFM MDTF).

Development partners have actively supported the GOI's initiatives to support PFM. The multi-donor trust fund, PFM MDTF, was established in 2007 to support the government's PFM reforms in general, and the implementation of the World Bank-financed Government Financial Management and Revenue Administration Project (GFMRAP) in particular. The trust fund has been in operation for more than a decade and has contributed significantly to the government's PFM reform agenda and will fund the assessment. The World Bank will provide the technical expertise jointly with the government

1 To guide financial management reforms, in April 2001, the MOF established the Financial Management Reform Committee (KPMK), whose tasks include providing guidance to the working groups specifically established to deal with each of the many aspects related to the improvement of financial management in government, facilitating dialogue with parliament on the State Finance, State Treasury, and Audit Draft Laws, and recommending improvements to the organizations, procedures and system. The White Paper is a result of evaluation on the existing financial management practices, regulations and studies of best practice on public financial management conducted by KPMK. The White Paper explains the main thrust of the reforms proposed on public expenditure management in Indonesia.

Objectives of the Assessment

The PEFA Indonesia assessment was agreed in July 2016 between the Ministry of Finance representing the Government of Indonesia, and the World Bank and the development partners contributing to the PFM MDTF. The two primary objectives of the 2016 PEFA assessment are:

- To establish a new baseline for measuring PFM progress going forward; and
- To provide a basis to dialogue with the government on its future PFM reform needs and for development partners to plan their program of support accordingly.

This PEFA Indonesia 2016 assessment also intends to provide an update on the current state of the country's PFM systems and priority areas for reform in the short to medium term. As such, it provides an opportunity for the PFM MDTF development partners and all relevant stakeholders to align their support and define better-targeted PFM reform initiatives.

1.2 Assessment Management and Quality Assurance

The PEFA Indonesia 2016 assessment was carried out jointly by the GOI and the World Bank Jakarta Office, in close collaboration with interested development partners. The Secretary General of the MOF led the work from the government side and appointed staff to work in tandem with the World Bank team during the validation and scoring of the indicators. Annex 3A provides a list of government counterparts who worked on each of the indicators.

A multi-disciplinary team with experts from both the World Bank's governance and macro-fiscal management global practices carried out the data collection, analysis and report-writing with the designated official counterparts. A PEFA consultant provided technical advice to the team and compiled the assessments and ratings into a consolidated report.

Several development partners joined the assessment, including representatives of the three contributors to the current phase of the PFM MDTF—the Government of Canada, the European Union, and the Government of Switzerland. Australia's DFAT, with an ongoing PFM engagement with the MOF, also contributed to the assessment. Other development partners working on the various aspects of the PFM systems in Indonesia were invited to contribute their comments on the draft.

The assessment management and quality assurance arrangements, with the names of all individuals who participated in the different stages of the assessment process, are presented in the box below:

Indonesia Public Expenditure and Financial Accountability (PEFA) Assessment Report 2017

Box 1: Assessment Management and Quality Assurance Arrangements

PEFA assessment management organization

Oversight Team

Chair and Members:

- Mr. Hadiyanto, Secretary General, Ministry of Finance
- Mr. Robert Taliercio, Practice Manager, Governance, World Bank
- Ms. Yongmei Zhou, Program Leader, World Bank

Assessment Manager:

- Mr. Purwiyanto Pranotosuwiryo, Senior Advisor to the Minister of Finance (former)
- Mr. M. Hatta, Head of Planning Finance Bureau (former)
- Ms. Kathleen Whimp, Lead Public Sector Management Specialist, World Bank

Assessment Team Leader and Team Members: The assessment was carried out by a core team comprising staffs from the World Bank, Secretary General Ministry of Finance, and consultant. The assessment team is as follows:

The World Bank:

- Ms. Cut Dian Agustina, Economist
- Mr. Pazhayannur K. Subramanian, Lead Financial Management Specialist
- Mr. Ahsan Ali, Lead Procurement Specialist
- Mr. Frederico Sander, Lead Economist
- Mr. Hari Purnomo, Senior Public Sector Specialist
- Mr. Unggul Suprayitno, Senior Financial Management Specialist
- Mr. Novira Asra, Senior Financial Management Specialist
- Mr. Ahya Ihsan. Senior Economist
- Ms. Sylvie Zaitra, International PFM Consultant
- Mr. Ahmad Zaki Fahmi, Economist
- Mr. I Gusti Ngurah Wijaya Kusuma, Financial Management Specialist
- Mr. Jaffar Al Rikabi, Economist
- Ms. Romawaty Sinaga, Public Sector Specialist
- Mr. Bintoro Suryo Hutomo, Tax Analyst
- Mr. Achmad Zacky Wasaraka, Procurement Specialist
- Ms. Ratih Dwi Rahmadanti, Research Specialist
- Ms. Magda Adriani, Research Specialist

Secretary General, Ministry of Finance

- Mr. Malul Azam, Planning and Finance Bureau

Review of concept note and/or terms of reference

Date of reviewed draft concept note: November 1-10, 2016

Invited reviewers and Reviewers who provided comments:

- Mr. Purwiyanto Pranotosuwiryo, GOI
- Mr. Remi Duiven, SECO, PFM-MDTF Donors
- Mr. Lewis Hawke, PEFA Secretariat
- Mr. Mark Ahern, the World Bank
- Mr. Ivor Beazley, the World Bank

Date(s) of final concept note and/or terms of reference: February 14, 2017

Review of the assessment report

Dates of reviewed draft reports: November 15, 2017

Invited reviewers and Reviewers who provided comments:

- Government of Indonesia
- World Bank: Mr. Mark Ahern, Ms. Saeeda Sabah Rashid, Ms. Rajni Bajpay
- PEFA Secretariat: Holy Tiana Rame
- PFM MDTF Donors: European Union, Government of Switzerland, Government of Canada
- AIPEG

The Senior Advisor to the Minister of Finance on State Expenditure served as the Chairman of the Working Group (PEFA Assessment Manager), while the Head of the Planning and Finance Bureau served as the co-chair and focal person. The Chairman's focal point collected evidential documents, assisted in identifying issues, and coordinated meetings that involved government officials from within and outside of the MOF, such as Bappenas, BPK, BPKP, parliament, and line ministries. Drafts of the report were circulated for internal discussion to ensure the factual accuracy and completeness of the assessments.

As per PEFA methodology, a high-level steering committee or oversight team was established to oversee the assessment and steer the course of reforms after the assessment is finalized. For this assessment, the steering committee includes the Secretary General of the Ministry of Finance and the Practice Manager of East Asia Pacific for Governance Practice of the World Bank.

In addition, an internal review group was set up to include key officials from each of the government institutions who discussed findings and results within their respective hierarchy, and with the PEFA assessment team at the various stages of the assessment process. Below is a list of ministries/agencies whose officials participated in the data collection and analysis phases:

- Ministry of Finance – Directorate General (DG) Budget, DG Treasury, DG Tax, DG Excise & Customs, DG Fiscal Balance, DG State Assets, DG Risk and Financing Management, and Fiscal Policy Agency.
- National Planning Agency (Bappenas).
- Key line ministries for service delivery: Ministry of Public Works and Housing, Ministry of State Administration and Bureaucratic Reform, Ministry of Education and Culture, Ministry of Health, Ministry of Energy and Mineral Resources, and the National Civil Servant Agency.
- State Audit Agency (BPK).
- National Internal Audit Institution (BPKP).
- Parliament (DPR) Secretariat to help complement assessments regarding legislative budgetary and oversight roles.

Internal and external peer reviewers were involved in the review of the concept note and the final report. External peer reviewers include the GOI, the PEFA Secretariat, donor representatives of the PFM MDTF program, and other development partner (AIPEG).

1.3 Assessment Methodology

This assessment is based on the PEFA 2016 framework issued by the PEFA Secretariat in February 2016 using all the 31 performance indicators available on its website (www.pefa.org). The assessment team worked closely with the PEFA Secretariat to seek guidance and clarifications as required.

The PEFA stakeholders agreed not to track performance changes to the previous PEFA Indonesia 2012 and instead to establish a new baseline for PFM reform and dialogue with development partners, using the PEFA 2016.

Coverage of the assessment and when performance is assessed

The period for the assessment covered the three years 2014, 2015 and 2016 with audited financial statements. The cut-off date for the collection of evidence and information that could be included in the report was August 31, 2017.

The scope included covered all budgetary agencies, including line ministries, agencies and public services units (BLU) of the central government, and oversight institutions such as the State Audit Agency (BPK), National Internal Audit Institution (BPKP), and parliament (DPR). Key line ministries included in the assessment (for indicators PI-8, PI-23, PI-26) were the Ministry of Finance, the Ministry of Public Works and Housing, the Ministry of Administrative and Bureaucratic Reform, the Ministry of Education and Culture, the Ministry of Health, and the Ministry of Energy and Mineral Resources. The coverage also included entities that conducted budgetary activities (government-owned or controlled corporations or SOEs, Social Security and Pension Funds) and those conducted extra-budgetary activities (including PPPs) for the fiscal risk and contingent liability assessments (PI-10).

Operations by the subnational governments—provinces, districts, cities and villages—were not included in this assessment. However, subnational PEFA pilot assessments of three locations—the Province of East Java, the District of Lamongan, and the City of Balikpapan—were carried out. This report includes findings from the District of Lamongan and the Province of East Java in order to discuss the effectiveness of intergovernmental transfers (PI-7) and PFM performance across tiers of governments.

Sources of information

The assessment team consulted a wide range of documents from various ministries and budgetary agencies, and studies and analysis produced by the World Bank and other development partners as inputs to the assessment. The list of documents consulted can be found in Annex 3B, which also includes the core PFM laws and regulations, five-year and annual development plans, annual budgets, budget execution reports, annual audited financial statements and audit reports. The list of persons consulted is provided in Annex 3A. The civil society institutions will be consulted through the focus groups and roadshow presentations during the dissemination process.

2. Country Background Information

Indonesia is the world's fourth most populous nation, with a population of 250 million living across more than 6,000 inhabited islands. This archipelago nation spans across three time-zones, is almost 6,000 km from east to west, is the tenth-largest world economy in terms of purchasing power parity (PPP), is endowed with rich natural resources from both land and sea, and is the only Southeast Asian member of the G20 forum. During the decade up to 2013, Indonesia enjoyed an annual growth rate of about 6 percent, with a vibrant private sector and a burgeoning middle class. It has made significant progress in poverty reduction, with its poverty rate declining by more than half, from 24 percent at the time of the Asian financial crisis in 1997/98, down to 11 percent in 2016. Its adult literacy rate is at almost 95 percent, with primary, secondary and tertiary education gross enrollment rates at 100, 83 and 32 percent, respectively. The share of female school enrollment exceeds that of males at each level. Meanwhile, life expectancy at birth had increased from 60 years in 1980 to 70 years by 2015.

2.1 Country Economic Situation

Indonesia has experienced strong economic growth and steady poverty reduction over the past decade, but the ending of the commodity boom, accompanied by stagnant poverty reduction and rising inequality, has put pressure on the country's overall economic development. Indonesia's average annual growth rate was 5.6 percent in the period 2001-12, with a GDP per capita of about USD3,500. The national poverty rate fell by half to 11.2 percent from 1999 to 2015, largely through sustained growth and job creation. However, as the external drivers of high commodity prices and demand dissipated, and global financing conditions deteriorated, growth slowed to 4.8 percent in 2015 and 5.1 percent in 2016. The rate of poverty reduction has also begun to stagnate, with a near zero decline in 2015 accompanied by an increase in inequality from 30 points in 2000 to 41 points by 2014, as measured by the Gini coefficient. Rising inequality has been driven largely by an increasing skilled wage premium, and an unequal distribution of capital ownership and capital income.

Since 2012, Indonesia has been experiencing the macro-fiscal effects of commodity price declines in a resource-driven economy. The prices of key export commodities in net terms peaked in 2011, but then dropped by about 57 percent by September 2015. This sharp decline in export commodity prices, coinciding with a rapid increase in oil imports, sharply reduced Indonesia's trade surplus and led to the opening of a significant current account deficit for the first time in 15 years. On the fiscal side, softer export commodity prices, combined with lower production of oil and gas and revenues, increased fiscal pressures through 2014.

Coinciding with the decline in natural resource-based revenues, government spending on energy subsidies increased significantly until mid-2014 due to high crude oil prices and a sharp depreciation of the rupiah in the second half of 2013. Facing both external and fiscal pressures, the government was required to refocus its policies on maintaining macroeconomic stability. Bank Indonesia (BI), the country's central bank, tightened monetary policy up until November 2014, contributing to a halving of credit growth, before easing its key reference interest rate thereafter. At the same time, in order to avoid a decline in foreign reserves, to help reduce the current account deficit and to make it easier to absorb possible external shocks, BI kept the exchange rate flexible.

The fiscal sector has also had to adjust to the effects of lower oil and gas revenues, and high energy subsidies, to support macro-fiscal stability. Faced with the challenge of slowing revenues and mounting energy subsidies, the government increased domestic fuel prices by an average of 33 percent in June 2013 and again in November 2014 by 30 percent. This was followed by the complete removal of subsidies for gasoline and the capping of subsidies for diesel through a new market-based price determination formula.

Table 3: Selected Economic Indicators

	2013	2014	2015	2016
Nominal GDP (USD billion)	915	891	861	933
GDP per capita (USD)	3,528	3,442	3,329	3,603
Nominal GDP (IDR trillion)	9,546	10,570	11,532	12,407
GDP per capita (IDR trillion)	38.0	41.5	44.7	47.6
Real GDP growth (%)	5.6	5.0	4.9	5.0
CPI (annual average change, %)	6.4	6.4	6.4	3.5
Government debt (% of GDP)	24.9	24.7	26.8	27.0
External terms of trade (annual % change)	-15.0	-15.6	-8.6	12.0
Current account balance (% of GDP)	-3.2	-3.1	-2.0	-1.8
Total external debt, including private sector (% of GDP)	29.1	32.9	36.0	34.0
Gross official reserves (months of import value)	5.6	6.6	7.7	8.7

Source: BPS, BI, MOF, and World Bank staff calculations.

Following five years of adjustments to lower commodity prices, Indonesia's economic growth finally began to strengthen in 2016 and early 2017, albeit gradually. Real GDP growth is projected to edge up to 5.2 percent in 2017, and climb to an average of 5.4 percent in 2018-19. Household consumption growth is projected to gain as a stable rupiah buoys consumer confidence. Private investment growth is also poised to increase, as the effects of monetary easing in 2016 and recent economic reforms gain traction through continued improvement in the business environment, lower financing rates and improving business sentiment.

2.2 Fiscal and Budgetary Trends

Fiscal Performance

Overall fiscal management has been prudent. The fiscal stance remains mildly expansionary, with overall fiscal deficits of 2.6 and 2.5 percent of GDP in 2015 and 2016, respectively (primary deficit of 1 percent), approaching the budget deficit cap of 3 percent of GDP. Given the fiscal rule requiring that the deficit be kept at or below the cap of 3 percent of GDP, and given the constraints to rapidly increasing revenue, increasing the overall *level* of public expenditure will be difficult—at least in the medium term. Overall, government spending is declining, from 17.3 percent of GDP in 2013 to 15.0 percent in 2016.

The government faces significant challenges to deliver on its *Collecting More* objective. Relative to its regional and emerging market peers, Indonesia has one of the lowest revenue-to-GDP ratios (12.5 percent in 2016 from 13.1 percent in 2015) and tax-to-GDP ratios (10.4 percent in 2016 from 10.7 percent in 2015), as well as one of the widest gaps between actual and potential revenues. It is estimated that Indonesia is collecting less than 50 percent of its potential tax revenues.[2] The revised 2015 budget set an ambitious revenue-collection target, at 15.1 percent of GDP (or a tax-to-GDP ratio of 12.7 percent of GDP), with a fiscal deficit target of 1.9 percent of GDP. The 2016 fiscal deficit grew to 2.6 percent as a result of tax revenues falling far short of this target.[3]

In 2016, in response, the finance minister cut government expenditure and lowered revenue targets, which immediately enhanced fiscal credibility. In addition, the nine-month tax amnesty launched in July 2016 provided some respite, with redemption fees totaling IDR 135 trillion, representing 10.5 percent of the government's 2016

2 Fenochietto, R. and Pessino, C., 2013, "Understanding Countries' Tax Effort", IMF Working Paper WP/13/244.

3 The general government deficit is capped by law at 3 percent of GDP. The threshold for each level of government is determined each year in a MOF regulation. The 2015 and 2016 maximum threshold for the subnational governments has been set at 0.3 percent and for the central government at 2.7 percent of GDP.

total tax revenues. However, collections from traditional tax sources declined between 2015 and 2016, as the tax amnesty absorbed limited tax administration capacity. Discussion on the fiscal impact that has arisen as a consequence of new government policies is further discussed in Chapter 3, PI-15.

On the financing side, the external debt has remained modest, at 34.0 percent of GDP in 2016. Public external debt is at 17.4 percent of GDP, or around 50 percent of total external debt. Short-term public debt has been relatively stable in nominal terms since 2010 and has fallen as a proportion of total public debt since 2013, reaching 4.9 percent in 2016. Total short-term debt as a proportion of foreign exchange reserves has been relatively stable as well, at 50 percent. The recent increase in external debt has been driven mainly by demand for long-term debt.

Table 4: Aggregate Fiscal Data

Central Government Actuals (percent of GDP)				
	2013	2014	2015	2016
Total revenue and grants:	**15.1**	**14.7**	**13.1**	**12.5**
Domestic revenue	15.0	14.6	13.0	12.5
Tax revenue	11.3	10.9	10.8	10.4
Non-tax revenue	3.7	3.8	2.2	2.1
Grants	0.1	0.0	0.1	0.1
Total expenditure:	**17.3**	**16.8**	**15.7**	**15.0**
Central government (CG) expenditure	11.9	11.4	10.3	9.3
Non-interest payment	10.7	10.1	8.9	7.8
Interest payment	1.2	1.3	1.4	1.5
Transfers to sub-national governments (SNGs)	5.4	5.4	5.4	5.7
Primary balance	**-1.0**	**-0.9**	**-1.2**	**-1.0**
Surplus/Deficit	**-2.2**	**-2.1**	**-2.6**	**-2.5**
Net financing:	**2.5**	**2.4**	**2.8**	**2.7**
Domestic financing	2.5	2.5	2.7	2.8
Foreign financing	-0.1	-0.1	0.1	-0.1

Source: LKPP, BPS, and World Bank staff calculations.

Table 5: Budget Outcomes and Projections (IDR trillion)

	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Budget
A. State revenue and grants	**1,211**	**1,338**	**1,439**	**1,550**	**1,508**	**1,556**	**1,750**
1. Tax revenue	874	981	1,077	1,147	1,240	1,285	1,499
2. Non-tax revenue	331	352	355	399	256	262	250
B. Expenditure	**1,295**	**1,491**	**1,651**	**1,777**	**1,807**	**1,864**	**2,080**
1. Central government	884	1,011	1,137	1,204	1,183	1,154	1,316
2. Transfers to the regions	411	481	513	574	623	710	765
C. Primary balance	**9**	**-53**	**-99**	**-93**	**-142**	**-126**	**-109**
D. SURPLUS / DEFICIT	-84	-153	-212	-227	-298	-308	-330
% of GDP	-1.1	-1.8	-2.2	-2.1	-2.6	-1.6	-2.4

Source: MOF, and World Bank staff calculations.

Allocation of Resources

The national budget has been allocated toward the government's priority areas. The reduction in fuel subsidies since 2015 has provided some fiscal space for the government to focus on more productive spending and fiscal decentralization. This has helped to develop priority infrastructure projects and target more efficient spending by expanding social assistance programs and fulfilling mandatory spending in education at 20 percent and health at 5 percent of total expenditure. The government showed its policy intent in the 2016 budget by maintaining low energy subsidies and sustaining the increase in pro-poor and pro-growth spending on infrastructure, health and social assistance.

The *Spending Better* agenda, however, still needs to be improved if it is to achieve the government's development goals. Some progress in improving the quality of public spending is being made. In the 2016 budget, fuel and energy subsidies continued to decrease (at IDR 102 trillion). Supported in part by energy subsidy efficiencies, the 2017 allocation for infrastructure increased to 2.8 percent of GDP from 2.6 percent in the revised 2016 budget.[4] Allocations for health and social assistance remained constant at 1.4 and 0.6 percent of GDP, respectively, below the average in East Asia and the Pacific, and average lower middle-income countries.

Infrastructure investment is rising but remains below its pre-1997/98 crisis levels. The medium-term development plan (RPRJM) 2015-2019 sets a range of infrastructure development targets to be achieved by 2019. Indonesia's annual infrastructure investment needs are estimated at 6.2 percent of GDP (by sector: 3.9 percent of GDP in transport, 1.0 percent of GDP in energy, 1.0 percent of GDP in telecommunications, and 0.4 percent of GDP in water and sanitation). Capital spending of the central government oscillated between 1.4 percent of GDP in 2014 up to 1.9 percent in 2015 and back down to 1.4 percent in 2016.

Government capital expenditure is implemented equally across different levels of government. Central government investment is implemented through the annual state budget (APBN), while local government investment is through the annual regional budget (APBD). The four biggest investment-spending ministries are the Ministry of Public Works and Housing, the Ministry of Defense, the Ministry of Transportation, and the Ministry of Energy and Mineral Resources. These four ministries were responsible for 70 percent of the total capital budget in 2016. Beginning in 2017, subnational governments are now required to allocate a minimum of 25 percent of general transfers (general block grants and revenue sharing) for infrastructure.

4 This follows the Ministry of Finance definition that includes selected central line ministry spending, estimates of transfers to subnational governments for infrastructure, and financing investment (e.g., capital injection to SOEs).

Table 6: Budget Allocations by Function

Actual Budgetary Allocations by Sectors (as a percentage of total expenditures)				
	2013	2014	2015	2016
General public services	42.8	44.9	34.6	14.8
Defense	5.3	4.8	5.9	5.3
Public order and safety	2.2	2.0	2.9	6.1
Economic affairs	6.5	5.5	9.8	15.5
Environmental protection	0.6	0.5	0.5	0.5
Housing and community amenities	2.0	1.5	0.9	1.5
Health	1.1	0.6	1.3	3.2
Tourism	0.1	0.1	0.2	0.2
Religion	0.2	0.2	0.3	0.5
Education	7.0	6.9	8.0	7.1
Social protection	1.0	0.7	1.2	7.4
Total expenditure by function	**68.9**	**67.7**	**65.5**	**61.9**

Source: LKPP, MOF, and World Bank staff calculations.
Note:
[1/] Expenditure by function excludes transfers to SNGs.
[2/] In 2016, the government undertook a functional reclassification of the budget by issuing Minister of Finance Regulation No. 114/PMK.02/2016. Some budget components that were formerly classified as General Public Services Function are now reclassified into other functions: Health, Economic Affairs, Social Protection, Public Order and Safety, Housing, and Community Amenities.

Table 7: Budget Allocations by Economic Classification

Actual Budgetary Allocations by Economic Classification (as a percentage of total expenditures)				
	2013	2014	2015	2016
Current expenditure:	**89.0**	**91.7**	**88.1**	**90.9**
Wages and salaries	13.4	13.7	15.6	16.4
Goods and services	10.3	9.9	12.9	13.9
Interest payment	6.8	7.5	8.6	9.8
Transfers to sub-national governments (SNGs)	31.1	32.3	34.5	38.1
Others (i.e. subsidies, grants, social benefits, other expenses)	27.4	28.3	16.5	12.7
Capital expenditure	**11.0**	**8.3**	**11.9**	**9.1**
Total expenditure by economic classification	**100.0**	**100.0**	**100.0**	**100.0**

Source: LKPP, MOF, and World Bank staff calculations.

2.3 Legal and Regulatory Arrangements for PFM

The 1945 Constitution, together with amendments enacted in the period 1999-2002, contains basic provisions on public finances including the role of the President in proposing the budget and its subsequent consideration by parliament. Provisions on regional administration, government revenue, and the mandate of the State Audit Agency (BPK) for external auditing over all public finances are also stated in the Constitution.

The public demand for good governance, following the 1997/98 financial crisis, brought a growing recognition in Indonesia of the need for comprehensive PFM reform. As a result, a PFM reform strategy was developed in 2002 with the new legal framework was approved by parliament in 2003 and 2004. The PFM regulatory framework, however, is fragmented and supported by detailed implementing regulations. An overview regarding the regulatory framework is below:

- **Planning:** State Development Planning Law No. 25/2004 provides the legal basis for the national development planning process, the role of Bappenas, and the preparation and approval of annual, medium- and long-term national development plans.
- **Budgeting:** State Finance Law No. 17/2003 provides the use of a macroeconomic framework in budget development, a GFS-consistent classification system and performance-based budgeting. It also sets out the role of the finance minister, procedures for the preparation and adoption of the state budget, financial relationships across different levels (horizontal and vertical) of government, and a requirement for annual audited financial statements to be submitted by the President to parliament.
- **Accounting:** State Treasury Law No. 1/2004 provides the legal basis for the Treasury to be the fund manager, with responsibilities that include: (i) the rationalization of government bank accounts and the centralization of cash management in the MOF through the establishment of a Treasury Single Account (TSA); (ii) streamlining budget execution; (iii) improving reporting on budget execution; and (iv) improving government financial reporting through the implementation of government accounting standards, based initially on modified accrual accounting with full accrual accounting by 2010
- **Audit:** State Audit Law No. 15/2004 provides the operational framework for the external audit institution, BPK, as a professional and independent institution tasked with submitting audit findings/reports to parliament. In addition, Law No. 15/2006 was adopted to replace the internal governance arrangements for BPK established in Law No. 5/1973. The third amendment of the 1945 Constitution in 2001, the Audit Law of 2004 and the Law on BPK of 2006, together provide the legal basis for public sector auditing by BPK.
- **Intergovernmental fiscal relations:** Decentralization is defined through a number of laws and decrees: Law No. 23/2014 on Regional Administration; Law No. 33 on Fiscal Transfers (under revision in 2017); Law No. 28/2009 on Regional Taxes and Fees; Government Regulations No. 55/2005 on Intergovernmental Transfer and No. 37/2007 on Functional Responsibility; and MOHA Regulations No. 13/2006 and No. 59/2007 on PFM in regional governments.
- **Parliament:** Law No. 17/2014 on the legislative institutions MD3 (MPR, DPR, DPD and DPRD) regulates the detailed parliamentary procedures to review budget proposals in advance of budget hearings. The law includes arrangements for public consultations. It also includes internal organizational arrangements, such as specialized review committees (Commissions I to XI), technical support (*Badan Keahlia*n DPR), and negotiation procedures.
- **Internal control:** Government Regulation (PP) No. 60/2008 on the Government Internal Control System (GICS) was issued by adopting the COSO framework in 2008 and "sets the tone at the top" for all government agencies.[5] The GICS aims to provide reasonable assurance in achieving effectiveness and efficiency in meeting the government's activities objectives, the reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations. In line with this regulation, all ministers/heads of the institution, governors, and district heads/mayors are required to exercise control over the implementation of the activities of government and also be responsible for the effectiveness of internal control systems within their authority. Meanwhile, the President, as head of the government, has the mandate to organize and implement the internal control system within the government as a whole, in order to improve performance, transparency and accountability in financial management. BPKP, the National Internal Audit Institution, is appointed the internal agency responsible for assisting ministries, departments and agencies, as well as local governments, in the implementation of PP No. 60/2008. The current implementation guidelines, including the roles and responsibilities of budget holders, commitment makers, payment verification staff, treasurers and accounting staff in each ministry, can be found in MOF Decree No. 190/2012. In 2016, BPKP initiated guidelines to assess the quality of internal control implementation across all government institutions nationwide through BPKP Regulation PERKA No. 4/2006.
- **Procurement:** Presidential Decree No. 80/2003 on Procurement provides the basis to improve the procurement regime. The National Public Procurement Agency (LKPP) was established at the end of 2007 by Presidential Regulation No. 106/2007 to govern the implementation of e-procurement to increase transparency and efficiency in the procurement process. The decree required that all government units and both national and subnational governments to adopt e-procurement by 2012 to increase transparency and efficiency in

5 COSO is the Committee of Sponsoring Organizations of the Treadway Commission, which is a joint initiative of five volunteering organizations from the private sector that develop a framework and guidance related to risk management, internal control and fraud prevention.

the procurement process. The decree also required procurement service units (ULP) to be established with accredited personnel at all levels of government to standardize the organization of procurement. Issuance of Presidential Regulation No. 54/2010, which follows key principles of sound procurement practices—efficiency, effectiveness, competitiveness, openness, transparency, non-discrimination, and accountability—has further improved the legal and regulatory framework of public procurement in Indonesia.

- **Extra budgetary units**, as per the GFSM 2014 definition, are the *Badan Layanan Umum* (BLU). The legal basis for the existence of a BLU is State Treasury Law No. 1/2004 and Government Regulation No. 74/2012 on BLU. BLU are semi-independent agencies primarily established for the state universities, hospitals, research agencies or agencies with revolving funds for specific purposes, for example the Education Endowment Fund.

2.4 Institutional Arrangements for PFM

Indonesia is a unitary state. The 1945 Constitution regulates the position and responsibilities of state officials, their authorities and tasks, and the relations between state institutions (legislative, executive and judicial). The 1945 Constitution also regulates the rights and responsibilities of citizens.

In the political system of Indonesia, the highest state institution is the People's Consultative Assembly or *Majelis Permusyawaratan Rakyat* (MPR). Its key functions are to promulgate the Constitution, to appoint or dismiss the President and Vice-president, and to establish broad guidelines for state policy. It has two lower houses or chambers, the People's Legislative Assembly (parliament) or *Dewan Perwakilan Rakyat* (DPR), and the Regional Representatives Council or *Dewan Perwakilan Daerah* (DPD). All legislation is passed by the DPR, which also monitors the executive branch.

The President is both the head of state and the head of government. The President is also the commander-in-chief of the Indonesian armed forces responsible for domestic governance, policy-making and foreign affairs. Both the President and Vice-president are elected on a single ticket by the citizens for a term of five years and a maximum of two terms. The President appoints a cabinet, that includes four coordinating ministries : (i) Economy Affairs, (ii) Human Development and Culture Affairs, (iii) Political, Legal and Security Affairs, and (iv) Maritime Affairs. In 2015, there were 88 organizations associated with the term Budget Users, which consisted of line ministries and non-departmental government institutions, including the State Audit Agency (BPK). These Budget Users are authorized to execute the central government budget. BPK, whose principal function is to audit the government's finances, reports to parliament.

One of the most far-reaching transformations in Indonesia has been the "Big Bang" decentralization that began in 2001. This involved allowing unprecedented political autonomy for the regions, as well as the transfer of significant functions from the central government. Decentralization was very much designed to further the democratic reform agenda by bringing government closer to the people, instead of concentrating power in Jakarta, the capital. Today, regional governments are directly elected rather than being appointed by the national government, and currently comprise 34 provinces and 514 regencies/cities. A governor heads a province, while a district- or municipal-level government is headed by a district head (*bupati*) or mayor (*walikota*), respectively. The relationship structure between the legislative and executive bodies at the provincial and district/municipal levels is similar to that at the national level. With decentralization, the share of expenditure accounted for by the different levels of subnational governments (provinces, cities, districts) rose from less than 10 percent pre-decentralization to almost half of the total government expenditure today. Subnational governments, however, have very limited fiscal resources of their own. An average of about 85 percent of their expenditure depends on transfers from the national government and the power to impose tax remains very much centrally based.

The prime responsibility for managing the public finances rests with the Ministry of Finance. Its functions include: formulating, stipulating and implementing policies in terms of budgeting, taxes, customs and excise, treasury, state assets management, fiscal balance, and budget financing and risk management. It also provides recommendations on fiscal and financial sector policies. The 2003 MOF re-organization created two separate directorates general: one for budget preparation (DG Budget) and the other (DG Treasury) for budget execution, cash management and accounting. In addition, a third directorate general, DG Fiscal Balance, is responsible for intergovernmental fiscal transfers. Responsibility for the development of the macroeconomic framework for the budget rests with the Fiscal Policy Agency (FPA) within the MOF. The FPA was established in 2006, as a new office with a similar level of authority as a directorate general, while a fourth directorate general, DG Debt Management, was also created to consolidate the management of both domestic and external debt.[6]

The national planning agency, Bappenas, also plays an important role in the budget. Bappenas used to be responsible for the preparation and implementation of the development budget, until this responsibility was transferred to the MOF. Bappenas is currently responsible for the development of the annual, medium-term (5-year) and long-term (20-year) plans that articulate the priorities of the President, and for reviewing the annual work plans prepared by line ministries. In practice, Bappenas continues to take the lead role in the development of the discretionary elements of budget expenditure, program structures in the budget and on expenditure prioritization in general. Bappenas also provides input into the development of the macroeconomic framework.

The MOF and Bappenas jointly issue the budget circular in February/March for the next fiscal year and both review the work plans and budgets submitted by line ministries in June/July through trilateral discussions. During the 2017 budget preparation, Bappenas took the lead in spending priorities and reallocation, while the MOF took the lead in the macro-fiscal framework. This role was adjusted in May 2017 through the promulgation of Government Regulation No.17 /2017 on Synchronization for the Process of National Development Planning and Budgeting. This regulation stipulates a joint role for the MOF and Bappenas in the budget formulation process (see Section 5).

Line ministries are responsible and accountable for their own financial administration. Within each line ministry there are spending units, or Satker, responsible for financial control and the approval of payments, including payroll. Payment requests are then forwarded to DG Treasury's field offices for payments to be made. Ministries are also required to prepare annual financial statements to be submitted to the MOF. Each line ministry includes an internal audit unit (Inspector-General, or IG), which reports directly to the responsible minister and is responsible for performance and financial audits.

In addition to line ministries, there are autonomous government agencies (AGAs), such as universities, research institutes and training organizations. These receive greater budgetary flexibility than line ministries, but in return are required to prepare and submit annual and semi-annual financial reports to DG Treasury.

The role of internal auditors for government institution is mandated to BPKP and requires all state institutions to implement the Government Internal Control System (GICS) for effective, efficient, and accountable management of state funds and reliable reporting. Under the regulations, four types of institutions share the responsibility for conducting the government's internal audit function, and they are BPKP, Inspectorates General, provincial inspectorates, and district/city inspectorates.

The external audit institution, BPK, has a clear mandate to audit all central government organizations and has the power to obtain all necessary information to achieve this. It reports to parliament semi-annually covering audit issues, and through its audit reports on the government's annual financial statements.

Parliament's role in shaping the state budget and in overseeing budget processes is institutionalized under Law No. 17/2004. Under this law, the former Budget Committee became the Budget Board (*Badan Anggaran*), which is a permanent entity of parliament responsible for the endorsement of the state budget. The Public Finance Accountability Board (*Badan Akuntabilitas Keuangan Negara*) was also established as a permanent entity of parliament to review audit results of state financial reports prepared by BPK.[7]

Parliament's mandate is embedded in the Constitution (UUD 1945, Article 23 point 2) and has evolved over the years. It now plays a critical role in the budget scrutiny and approval process.[8]

6 In total, the MOF comprises nine Echelon I offices (seven DGs, one Agency and one Training Center).

7 See more details under PI-30, page 134

8 See more on DPR's function under PI-18, page 88 and PI-31, page 138.

Table 8: Structure of the Public Sector (number of entities and financial turnover)

2016	Public Sector				
	Government Subsector		Social Security Funds	Public Corporation Subsector	
	Budgetary Unit	Extra-budgetary Unit		Non-financial Public Corporations	Financial Public Corporations
Central	87	172[1/]	2[2/]	124	24
Financial turnover	1,154,018 [5/]				
Provincial	34			106[3/]	
Financial turnover	231,145[5/]				
District	508[4/]			320[3/]	
Financial turnover	801,952				

[1/] Number of BLU (*Badan Layanan Umum* or public service agencies).
[2/] Social security funds comprise BPJS Kesehatan (Health Social Security) and BPJS Ketenagakerjaan (Workers Social Security).
[3/] Number of BUMD (*Badan Usaha Milik Daerah* or Region-owned Enterprises) in 2014. Data from the MoHA do not provide the split between non-financial and financial public corporations. Source: http://keuda.kemendagri.go.id/datin/index/2/2014
[4/] Excluding six districts in DKI Jakarta as their budgets are consolidated into the provincial-level budget.
[5/] Excluding transfers to lower level governments

Table 9: Financial Structure of Central Government – Budget Estimates

2016: Budget Estimates	Central Government (IDR trillion)			
	Budgetary operations[1/]	Extra-budgetary operations[2/]	Social security funds[3/]	Total aggregated
Revenue	1,822.40	39.91	6.21[4/]	1,868.52
Expenditure	1,325.60	28.34	5.17[5/]	1,359.11
Transfers to (-) and from (+) other units of general gov't	(770.20)	(0.32)[6/]		770.52
Liabilities	3,493.53[7/]	3.39	3.62	3,500.54
Assets	5,163.32	253.14	23.71	5,440.17
Current assets	326.75	29.80		356.55
Long-term investments	2,223.79	20.46		2,244.25
Fixed assets	1,852.04	175.69		2,027.73
Long-term receivables	47.50			47.50
Other assets	713.21	27.33		740.54

[1/] Using 2016 Approved Budget for revenue, expenditure, and transfers to other units of general governments. Using Central Government balance sheet as of December 31, 2015 for liabilities and assets.
[2/] Using BLU balance sheet and income statement as of December 31, 2015. BLU financial reports are actually also consolidated into the Central Government financial statements. Source: 2015 LKPP.
[3/] Using BPJS Kesehatan & BPJS Ketenagakerjaan balance sheet and income statement as of December 31, 2014. Source: https://bpjs-kesehatan.go.id/ and http://www.bpjsketenagakerjaan.go.id/
[4/] Business revenue.
[5/] Operating expenses.
[6/] BLU's contribution to Central Government (part of Central Government's revenue).
[7/] Using central government balance sheet as of December 31, 2015. Source: 2015 LKPP.

Table 10: **Financial Structure of Central Government – Actual Expenditure (IDR trillion)**

2016: Actual Expenditure	Central Government			
	Budgetary operations[1/]	Extra-budgetary operations[2/]	Social security funds[3/]	Total aggregated
Revenue	1,555.93	54.65	4.07[4/]	1,614.65
Expenditure	1,154.02	49.52	6.47[5/]	1,210.01
Transfers to (-) and from (+) other units of general gov't	(710.26)	(2.34)[6/]		(712.60)
Liabilities	3,889.94	4.19	4.20	3,898.33
Assets	5,456.88	246.97	23.23	5,727.08
Current assets	304.61	26.34		330.95
Long-term investments	2,411.82	0.83		2,412.65
Fixed assets	1,921.79	164.69		2,086.48
Long-term receivables	47.12			47.12
Other assets	771.52	55.54		827.06

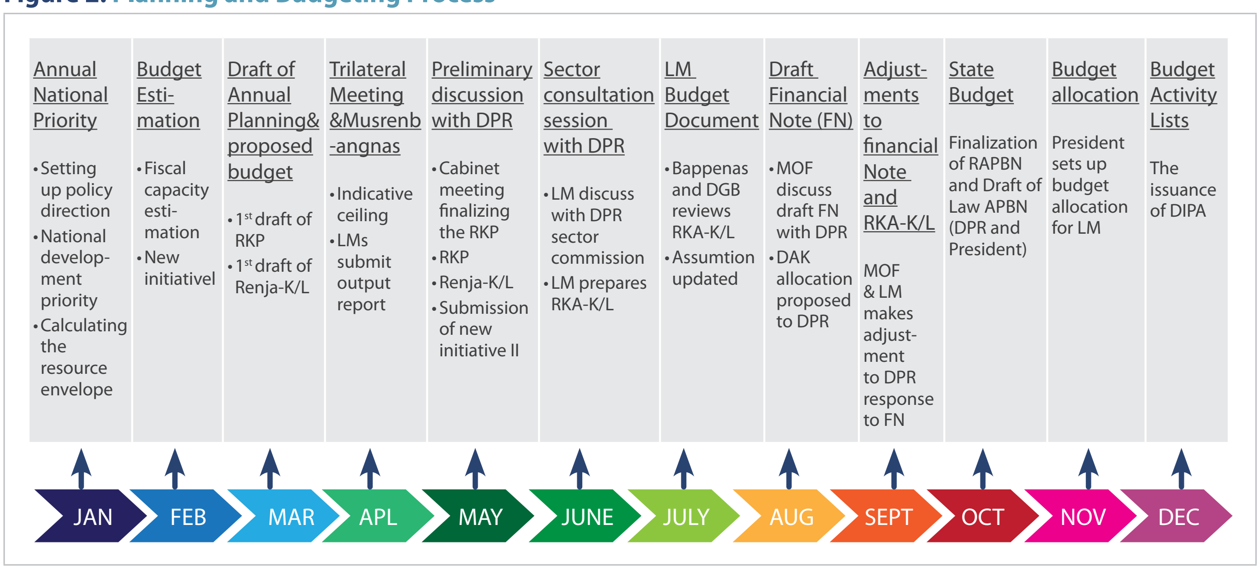
[1/] Using 2016 LKPP for actual/realized revenue, expenditure, and transfers to other units of general governments. Using Central Government balance sheet as of December 31, 2016 for liabilities and assets
[2/] Using BLU balance sheet and income statement as of December 31, 2016. BLU financial reports are actually also consolidated into the Central Government financial statements. Source: 2016 LKPP.
[3/] Using BPJS Kesehatan & BPJS Ketenagakerjaan balance sheet and income statement as of December 31, 2015. Source: https://bpjs-kesehatan.go.id/ and http://www.bpjsketenagakerjaan.go.id/ (2016 financial statements are not yet available on BPJS websites).
[4/] Business revenue.
[5/] Operating expenses.
[6/] BLU's contribution to central government (part of central government's revenue).

2.5 Other Important Features of PFM and its Operating Environment

The annual planning and budgeting process

Numerous agencies are involved in the planning and budgeting process. The planning process is conducted by Bappenas, while the budget process is undertaken by the MOF. The participatory planning process encourages the involvement of the community, public and government institutions as exemplified through the Musyawarah Perencanaan Pembangunan (Musrenbang) process, an open bottom-up planning process intended to yield proposals and aspirations for the budget process.

Figure 2: **Planning and Budgeting Process**



In January and February, a technical committee led by the Fiscal Policy Agency of the MOF prepares macroeconomic and fiscal projections for the following year. The Fiscal Policy Agency uses the projections to forecast government revenue and determines how much expenditure can take place after taking into consideration the "deficit rule" (the annual cap of 2.5 percent for the central government budget, and 0.5 percent for the aggregate subnational government budget).

The process for allocating the resources starts in January, when Bappenas invites proposals from line ministries for "new initiatives" to be included in the government work plan. The request for new initiatives is guided by a statement from the President on government priorities for the following year's budget.

DG Budget then constructs a fiscal framework for the budget, referred to as the "*i*" account "posture". The macroeconomic and fiscal projections are presented in the macro-fiscal policy statement by the MOF to parliament during the preliminary discussion in May. The macroeconomic assumptions are adjusted throughout the budget preparation year, to reflect updates of the quarterly economic outlook issued by the Central Bureau of Statistics (BPS). The Fiscal Policy Agency of the MOF makes changes to the macroeconomic assumptions, which may (or may not) result in changes to the total resource envelope.

The resources available for programming are the outstanding resource envelope after deducting "mandatory" expenditures and are communicated to Bappenas by the MOF in February. These expenditures include personnel budget (including pension payments), repayments of loans, subsidies (energy and non-energy), General Allocation Fund (DAU) transfers to subnational governments, ensuring the 20 percent education budget portion as stipulated by the Constitution, a contingency reserve, and an allocation for the operating expenditures of the line ministries.

Trilateral meetings between Bappenas, the MOF and the respective line ministries (K/L) in April are designed to align the national development plans and priorities within the available fiscal framework, which by this stage has already been prepared and provided by the MOF. Based on these trilateral meetings, Bappenas and the MOF announce the indicative budget in April. A joint circular issued by Bappenas and the MOF is sent to the line ministries, notifying the indicative budget as a basis for the line ministries to finalize their annual plans. Once the indicative budget has been decided, Bappenas hosts a national development planning discussion, inviting all line ministries and all subnational governments to attend.

A cabinet meeting takes place in May to discuss the final version of the government's work plan. Following this meeting, the government issues a presidential decree finalizing the proposed government's work plan. At about the same time, the cabinet also makes decisions on subsidy policy, adjustments to base pay for personnel, and allocations to strategic projects instructed by the President.

At the end of May, the government and parliament discuss the government's work plan and the macro-fiscal policy statement, over several days. The government work plan consists of around 1,200 pages of information, including the overall economic framework and the main development themes proposed in the plan. As with a number of other planning and budgeting documents, the detail in the annual plan is considerable. Parliament tends to discuss all levels of the government work plan—development themes, economic framework details. Changes to either the overall budget or the priorities will have an impact on the line ministries' indicative budget ceilings. Parliament can also propose changes and adjustments to some of the major aspects of the macro-fiscal policy statement, including setting the revenue targets. Parliament examines and decides on the macroeconomic assumptions presented in the macro-fiscal policy statement.

To facilitate (and control) this process, the government presents the different assumptions as a range. In preparing the assumptions, the MOF tends to take a conservative approach, which restrains the allocation of resources early in the process and creates "space" to accommodate additional expenditures that are likely to be added during the remainder of the cycle. Parliament tends to take a more optimistic stance when deciding on the assumptions, which leads to a projection of additional resources for allocation. The additional "projected" resources create additional fiscal space, which is then available for parliament to allocate. This happens during the sector commission consultation sessions in June. Up to now, the planning role taken by Bappenas was considered—by law—to end at this stage of the annual cycle, with the MOF leading the preparation of the budget.

With the new PP No. 17/2017, Bappenas and DG Budget are set to work jointly to synchronize the process of national development planning and budgeting more effectively and efficiently. Bappenas is granted a new role to—jointly with the MOF—set the line ministry budget ceiling (previously called the temporary ceiling), review or assess line ministries budget proposals (RKA-KL) to ensure the consistency of RKA-KL targets with the Renja-KL and RKP. It is expected there will be a strong alignment between the planning (RKP and Renja) and budgeting (RKA-KL) documents.

FMIS application platform as a backbone of PFM reform in Indonesia (SPAN)

The Government of Indonesia initiated the implementation of a State Treasury and Budget Information System (*Sistem Perbendaharaan dan Anggaran Negara,* or SPAN) as one of the major components of the Government Financial Management and Revenue Administration Program (GFMRAP) funded by a loan from the World Bank.

SPAN was designed to replace 14 of the 27 existing stand-alone systems, interface with seven existing systems, and automate many new processes mandated by the State Finance and Treasury Laws. It is set to provide accurate and timely financial reporting, reduce the incidence and size of idle cash balances, and reduce corruption in payments. The information contained in the SPAN databases generates for the MOF, other core financial agencies and budget users, comprehensive reports related to the central government's financial resources.

Since 2015, SPAN has been successfully implemented at the Head Office of the Treasury and each of the branches of the Treasury (KPPNs and Kanwil) to process and control central government payments in their respective regions. It has been rolled out to 222 locations across Indonesia. SPAN now manages all the financial transactions performed by over 24,000 government spending units. It consolidates government revenues into a TSA held at Bank Indonesia (BI) and routes all payments through this account. Daily cash balances and comprehensive transaction data of central government treasury offices are captured on a real-time basis and used for informed decision-making, including by the President, indicating a strong sense of ownership beyond DG Treasury.

Box 2: Core Financial Functions of SPAN

- Recording budget ceilings approved by parliament in the annual State Budget Law and issued by the President through a Presidential Regulation on Budget Details;
- Recording budget allocations authorized by DJPBN to MDAs;
- Recording payment commitments and payments orders (SPM) entered into by spending units;
- Recording payment authorizations (SP2D) and revenue collections remitted by commercial banks with balance transferred daily to a central treasury account (TSA);
- Providing financial and accounting reports (LRA, *Neraca and Catatan Laporan Keuangan)* to record transactions, monitor fund releases and available fund balances;
- Providing query facilities on the budget position of central government and individual agencies;
- Facilitating reconciliation of the TSA and banking data through chronological lists of transactions; and
- Maintaining historical data according to budget classification codes (GFSM2001[7]) and recording projections of up to three years (MTEF[8]).

The spending units are not licensed to use SPAN, but transmit data offline to their designated field treasury offices for further processing and consolidation through SPAN. However, under the law each spending unit is considered an accounting entity obligated to maintain accounts and to prepare financial reports, which are consolidated with financial reports of their line ministries and presented to parliament. The spending units maintain their own independent sets of accounting and financial records, which are periodically reconciled with the financial data captured through SPAN.

In parallel with the roll-out of SPAN, DG Treasury has developed in-house an application software called *Sistem Aplikasi Keuangan Tingkat Instansi* (SAKTI) to cover the entire process of financial management at the spending unit level, starting from budgeting, budget execution and to fiscal reporting. It integrates 11 stand-alone applications earlier used at the spending unit level for financial management. SAKTI comprises modules for budgeting, commitment control, revenue recording, payment, cash book, inventory and fixed assets management, and financial reporting. A SPAN Portal, which is a web-based application, facilitates direct data transmission from SAKTI to SPAN without the physical intervention of the field treasury offices. An additional application called

9 IMF Government Finance Statistics Manual.

10 Medium-Term Expenditure Framework.

SPAN-SMS Service enables the spending units to monitor their financial data real time. SPAN and SPAN-SMS portal gateways are placed in the office of DG Treasury.

Extra budgetary units

As per the GFSM 2014 definition, the Badan Layanan Umum (BLU) are considered extra budgetary units in the Indonesian system. The legal basis for the existence of a BLU is State Treasury Law No. 1/2004 and Government Regulation No. 74/2012 on BLU. BLU are semi-independent agencies primarily established for the state universities, hospitals, research agencies or agencies with revolving funds for specific purposes, for example the Education Endowment Fund. Their financial impact is limited as they representing less than 1 percent of the total budgeted revenue and expenditure. Detailed financial reports of the extra budgetary units (BLUs) — de facto included in their line ministries' budget realization reports — are submitted within three months of the end of the fiscal year. The earmarked revenue collected from the BLUs is therefore consolidated into the financial statements.

The degree of centralization of the PFM system

The Indonesian PFM system is characterized by a high degree of centralization. The State Finance law of 2003 clearly prescribed the role of the Minister of Finance as Chief Financial Officer (CFO) of the State, in prescribing the Central Government's financial regulations and monitoring adherence to principles of financial management, while it gave prominence to the authority of the line ministers as the authorizing officers (Chief Operation Officers) to execute budget for implementing programs in their own ministries. Meanwhile, in compliance with the 2004 Treasury Law, DG Treasury in MOF and the Finance Units in the Line Ministries became the key players in budget execution. The line ministries as the budget users were made responsible for using financial resources to achieve the objectives provided to them. To institutionalize this responsibility and to enforce better accountability, the functions of contracting for, and verification of, goods and services were transferred from MOF to the line ministries. The spending unit of the line ministry is however required to submit a request for payment to Treasury for remitting the cash from TSA to the individual account of the government payment recipients.

The PFM architecture is well established and supported by strong and reliable systems with all the required functions in place: internal controls, accounting and reporting procedures, internal and external audit system, centralization of cash balances and a sound reporting system with strengthened accountability and transparency. As a result, the spending agencies have the powers to control budget implementation, but are held accountable to meet specific performance criteria.

Control exercised by external oversight bodies

The role played by external oversight bodies is becoming increasingly significant as the institutions and standards are developed. At the regulatory level, Indonesia has a formal and relatively decentralized policy structure. Regulatory reform is considered as a whole of government process and ministries have a significant responsibility for regulatory policy reform. As there is no central unit responsible for managing and coordinating regulation, reform policy is driven mostly by the presidential agenda and reform-oriented ministries with horizontal and vertical responsibilities for aspects of regulatory governance, such as MOF, Bappenas or MOHA for the subnational level, including cost-benefit analysis and policy and analytical oversight.

Other independent oversight bodies are well established with a clear check and balance mandate on the executive power. As described earlier, BPKP, IGs and BPK fulfill respectively the internal audit and external audit function over the financial execution. Other bodies, such as the Corruption Eradication Commission (Komisi Pemberantasan Korupsi), abbreviated as KPK, is a government agency established to fight corruption through Law No.30/2002. Since 2002, the Commission has engaged in significant work revealing and prosecuting cases of corruption in crucial government bodies. Its mandate covers investigation, prosecution of all public sector officials regardless of their level. Resources provided to the KPK have expanded in recent years.

3. Assessment of PFM Performance

This section presents an assessment of the key elements of Indonesia's PFM system based on the PEFA 2016 performance indicators. The four-grade scorings for the PFM performance indicators are based on the following criteria.

A	High level of performance that meets good international practices
B	Sound performance above the basic level
C	Basic level of performance broadly consistent with good international practices
D	Either less than the basic level of performance or insufficient information to score

Pillar One: Budget Reliability

PI-1: Aggregate Expenditure Outturn

This indicator assesses whether the annual budget approved by parliament (APBN) to finance the provision of public services and the development of investment projects undergoes adjustments or substantial deviations during the budget execution phase. The indicator compares the aggregate budget expenditure outturn (actual total expenditure) against the total of originally approved budgeted expenditure, as defined in government budget documentation and fiscal reports. Aggregate expenditure includes current and capital expenditure of central government ministries and agencies, and actual transfers to subnational governments. This measure also reflects the government's ability to maintain fiscal discipline, while adhering to the parameters set in the approved budget.

International good practice provides that the difference between planned expenditures and effectively executed expenditures at the end of the fiscal year should not be greater than 5 percent, to the extent that there were no unforeseen events during the period. To account for the possibility of exceptional or unpredictable events, the PEFA methodology establishes that the difference between planned expenditures and budget execution at the aggregate level can be more than 5 percent in one of the three years covered by the assessment.

Dimension and scoring

Score	Minimum requirements for scores
1.1. Aggregate expenditure outturn	
A	Aggregate expenditure outturn was between 95% and 105% of the approved aggregate budgeted expenditure in at least two of the past three years.
B	Aggregate expenditure outturn was between 90% and 110% of the approved aggregate budgeted expenditure in at least two of the past three years.
C	Aggregate expenditure outturn was between 85% and 115% of the approved aggregate budgeted expenditure in at least two of the past three years.
D	Performance is less than required for a "C" score.

Summary of Score and Performance for PI-1: Aggregate expenditure outturn

Indicator/Dimension (number and name)	Score	Brief Justification for Score
1.1. Aggregate expenditure outturn	C	**The execution of the budget in Indonesia underwent two years of deviations greater than 5% in relation to the original approved budget, of 11.4% and 11.0%, respectively, in 2015 and 2016 (aggregate expenditure outturn was between 85% and 115% in 2015 and 2016).**

The following table depicts the original budgets (APBN), as approved by parliament compared with the actual outturns (from the financial reports LKPP) for the past three completed fiscal years: 2014, 2015 and 2016. The aggregate expenditure outturn was 96.5 percent of the original budget for 2014, but this declined to 88.6 and 89.0 percent of the original budget in 2015 and 2016, respectively.

Table 11: Aggregate Expenditure Outturn and Approved Budget

Aggregate expenditure outturn and approved budget (IDR trillion)	2014		2015		2016	
	Budget	Outturn	Budget	Outturn	Budget	Outturn
Current expenditure	1,658.3	1,629.9	1,864.8	1,591.0	1,894.2	1,694.8
Capital expenditure	184.2	147.3	174.7	215.4	201.6	169.5
Total expenditure	**1,842.5**	**1,777.3**	**2,039.5**	**1,806.4**	**2,095.8**	**1,864.3**
Minus interest payments	121.3	133.4	152.0	156.0	184.9	182.8
Total primary expenditure	1,721.2	1,643.8	1,887.5	1,650.4	1,910.9	1,681.5
Realization	**96.5%**		**88.6%**		**89.0%**	

Source: LKPP (financial statement of the central government) in respective years.

In 2015, the 11.4 percent deviation between the original budget and the budget outturn reflected the transition period needed to usher in the new government elected in 2014, and the need for policy adjustment in the budget prepared by the previous administration. The 2015 budget was prepared and approved in October 2014, before the new government took office in November 2014. In February 2015, the 2015 budget underwent major revisions, including to macroeconomic assumptions and expenditure composition, to align with the recent changes in the macroeconomic environment and to reflect the new government's policy reform agenda, including the removal of the explicit subsidy for gasoline, and the introduction of a fixed per-liter subsidy for diesel. This reform reduced fuel subsidy costs from 2.3 percent of GDP in 2014 to 0.5 percent of GDP in 2015, and provided fiscal space for higher spending on infrastructure and social programs.

In 2016, the 11 percent deviation reflected the government's effort to maintain fiscal discipline through two significant budget revisions and reductions. Optimistic revenue forecasts caused a significant deviation between the original budget and expenditure outturn, which had to be corrected by the MOF through substantial in-year budget cuts. With the aim of improving the quality of the execution and alignment to fiscal realization, the government announced a second reduction to the 2016 fiscal outlook in July 2016, after the revised 2016 budget had been approved in June 2016. This additional round of expenditure cuts in July 2016 amounted to IDR 134 trillion (6 percent of total expenditure) and was based on the revision of projected revenue. It aimed at targeting non-priority line ministries' spending and included the postponement of transfers to subnational governments.

Box 3: Budget Expenditure versus Revised Expenditure

It should be noted that MoF's , focus on fiscal discipline justifies significant in-year budget revisions, and actual outturns are always compared against the revised budget. Budget credibility is therefore paradoxically measured by assessing MOF capacity to align the budget execution to the fiscal outturn and no to the original approved budget. When measured against the APBN-P revised budget, the aggregate expenditure outturn is above 90 percent for two of the three years of the assessment. The point is discussed further under section 4.3.

Table 12: Approved and Revised Budget for Aggregate Expenditure Outturn

Aggregate expenditure outturn and approved budget (IDR trillion)	2014		2015		2016	
	APBN-P	Outturn	APBN-P	Outturn	APBN-P	Outturn
Current expenditure	1,716.1	1,629.9	1,708.4	1,591.0	1,855.5	1,694.8
Capital expenditure	160.8	147.3	275.8	215.4	227.5	169.5
Total expenditure	1,876.9	1,777.3	1,984.1	1,806.4	2,082.9	1,864.3
Minus interest payments	135.5	133.4	155.7	156.0	191.2	182.8
Total primary expenditure	1,741.4	1,643.8	1,828.4	1,650.4	1,891.7	1,681.5
Realization %	**94.7%**		**91.0%**		**89.5%**	

Source: LKPP (financial statement of the central government) in respective years.

The aggregate expenditure outturn was below 90 percent and above 85 percent for two of the three years the score for indicator PI-1 is assessed as a "C".

PI-2: Expenditure Composition Outturn

Where the composition of expenditure varies considerably from the original composition in the approved budget, the budget may not be a useful statement of policy intent and not a good predictor of public spending outcomes. This indicator assesses the extent to which public policy priorities, as reflected in the allocation of expenditures by functional and economic categories in the APBN approved by parliament, are respected in the implementation phase.

This is measured by analyzing the extent to which reallocations between the main budget categories during budget execution have contributed to variance in expenditure composition. It also evaluates the potential use of a contingency reserve, or unearmarked budget allocation, to adjust the initial policy priorities.

The assessment covers the past three completed fiscal years, 2014, 2015 and 2016, using the data from the APBN and LKPP reported in Annex 4 in the format provided from the PEFA 2016 framework.

Dimension and scoring

Score	Minimum requirements for scores
2.1. Expenditure composition outturn by function	
A	Variance in expenditure composition by program, administrative or functional classification was less than 5% in at least two of the past three years.
B	Variance in expenditure composition by program, administrative or functional classification was less than 10% in at least two of the past three years.
C	Variance in expenditure composition by program, administrative or functional classification was less than 15% in at least two of the past three years.
D	Performance is less than required for a C score.

Score	Minimum requirements for scores
2.2. Expenditure composition outturn by economic type	
A	Variance in expenditure composition by economic classification was less than 5% in at least two of the past three years.
B	Variance in expenditure composition by economic classification was less than 10% in at least two of the past three years.
C	Variance in expenditure composition by economic classification was less than 15% in at least two of the past three years.
D	Performance is less than required for a C score.
2.3. Expenditure from contingency reserves	
A	Actual expenditure charged to a contingency vote was on average less than 3% of the original budget.
B	Actual expenditure charged to a contingency vote was averaging between 3% and 6%, inclusive, of the original budget.
C	Actual expenditure charged to a contingency vote was on average more than 6% but less than 10% of the original budget.
D	Performance is less than required for a C score.

Summary of Score and Performance for PI-2: Expenditure composition outturn (M1 methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Expenditure composition outturn	**C+**	**The functional composition variance was less than 10% and the economic composition variance was less than 15% in two of the past three years. Average actual expenditure charged to contingency vote was less than 3% of the original budget.**
2.1. Expenditure composition outturn by function	B	The functional composition variance was 6.8%, 22.6% and 5.5% in 2014, 2015 and 2016, respectively, less than 10% in two of the past three years.
2.2. Expenditure composition outturn by economic type	C	Variance in expenditure composition by economic classification was 11%, 23.5% and 6.4% in 2014, 2015 and 2016 respectively, hence less than 15% in at least two of the past three years.
2.3. Expenditure from contingency reserves	A	Actual expenditure charged to a contingency vote was on average less than 3% of the total expenditure in the original budget.

PI-2.1: Expenditure composition outturn by function

This dimension measures the variance between the original, approved budget and end-of-year outturn in expenditure composition by functional classification. It reflects the government's ability to pursue its policy objectives as intended and stated in the budget. Based on the functional classification, the variance from the budgeted expenditure composition was as follows (see detailed calculation in Annex 4):

Table 13: Calculation of Variance by Functional Classification

Year	Functional Classification (IDR trillion)			
	Budget Appropriation	Expenditures	Absolute deviation	Composition Variance
2014	1,250	1,204	96.3	**6.8%**
2015	1,392	1,183	85.0	**22.6%**
2016	1,326	1,154	87.1	**5.5%**

Source: LKPP (financial statement of the central government) in respective years and DG Budget, Ministry of Finance.

The significant variances in aggregate expenditure between the original budget and outturn in 2015 and 2016 reflect the overall policy adjustments that have already been discussed in the assessment of PI-1 above. In 2016, the government initiated a functional reclassification of the budget with MOF Regulation No. 114/ PMK.02/2016 to better reflect policies taken by the government and components formerly classified within the General Public Services function are now reclassified into other functions. This explains the significant decline in the 2016 budget functional classification for General Public Services, as compared with 2015.

As illustrated in Table 12 above, the variance in expenditure composition by functional classification was less than 10 percent in at least two of the past three years. **The score for dimension 2.1 is hence assessed at a "B".**

PI-2.2: Expenditure composition outturn by economic type

This indicator measures the difference between the originally approved budget and end-of-year outturn in expenditure composition by economic classification, including interest on debt but excluding contingency items. Based on the economic classification, the variance from the budgeted expenditure composition was as follows (see detailed calculation in Annex 4):

Table 14: Calculation of Variance by Economic Classification

Year	Economic Classification (IDR trillion)			
	Budget Appropriation	Expenditures	Absolute deviation	Composition Variance
2014	1,842.5	1,777.2	96.5	**11.0%**
2015	2,039.5	1,806.5	88.6	**23.5%**
2016	2,095.8	1,864.3	89.0	**6.4%**

Source: LKPP (financial statement of the central government) in respective years.

Prior to 2015, expenditure outturn was characterized by systematic underspending of capital and equipment expenditures but overspending on subsidies. As mentioned, the high variance in 2015 was mainly driven by a policy shift that contributed mostly to the capital expenditure budget and, to a lesser extent, to the health and social assistance budgets. The results in Table 13 above show that the composition variance is less than 15 percent in at least two of the past three years (2014 and 2016), but exceeded 15 percent in 2015. **The score for dimension 2.2 is assessed as a "C".**

PI-2.3: Expenditure from contingency reserves

This indicator recognizes that, while it is prudent to include an amount to allow for unforeseen events in the form of non-earmarked funds or contingency reserve, this amount should not be so large as to undermine the credibility of the budget. According to the MOF definition, contingency reserves expenditure comprises three components: (i) contingency expenditure for natural disasters; (ii) contingency expenditure for fiscal risk, for managing the deviation of macroeconomic indicators between actual and budget assumptions; and (iii) contingency expenditure for immediate needs. Contingency expenditure for natural disasters is classified as "social benefit expenditure", while contingency expenditure for fiscal risk and immediate needs is classified as the "other expenditure" category. Table 14 below summarizes the calculations for 2014, 2015 and 2016, with detailed data tables provided in Annex 4. On average, total contingency obligations incurred were less than 0.1 percent of total expenditure.

Table 15: Calculation of Contingency Share

Year	(IDR trillion)		
	Total Budget Appropriation	Total Contingency Obligations Incurred	Contingency Share
2014	1,842.5	1.4	0.1%
2015	2,039.5	2.3	0.1%
2016	2,095.8	1.9	0.1%
Average Contingency Share	1,992.6	1.8	0.1%

Source: LKPP (financial statement of the central government) in respective years and DG Budget, Ministry of Finance.

Actual expenditure charged to contingency expenditure was on average less than 3 percent of the original budget, **thus the score for dimension 2.3 is assessed as an "A".**

PI-3: Revenue Outturn

Accurate revenue forecasts are a key input to the preparation of a credible budget. Revenues allow the government to finance expenditures and deliver services to its citizens. Optimistic revenue forecasts can lead to unjustifiably large expenditure allocations that will eventually require either in-year reductions in spending, or an unplanned increase in borrowing to sustain the spending level. This indicator is intended to assess the quality of revenue forecasting by comparing revenue estimates in the original approved budget with actual domestic revenue collection based on tax and non-tax revenues, and grants. It compares actual total domestic revenue with the originally budgeted domestic revenue at the central government level for 2014, 2015 and 2016.

Dimension and scoring

Score	Minimum requirements for scores
3.1.Aggregaterevenueoutturn	
A	Actual revenue was between 97% and 106% of budgeted revenue in at least two of the past three years.
B	Actual revenue was between 94% and 112% of budgeted revenue in at least two of the past three years.
C	Actual revenue was between 92% and 116% of budgeted revenue in at least two of the past three years.
D	Performance is less than required for a "C" score.
3.2. Revenue composition outturn	
A	Variance in revenue composition was less than 5% in two of the past three years.
B	Variance in revenue composition was less than 10% in two of the past three years.
C	Variance in revenue composition was less than 15% in two of the past three years.
D	Performance is less than required for a "C" score.

Summary of Score and Performance for PI-3: Revenue outturn (M2 methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Revenue outturn	**D**	**Aggregate revenue outturn was between 92% and 116% for only one year and the revenue composition variance and remained above 15% for two years in the period (2015 and 2016).**
3.1. Aggregate revenue outturn	D	Actual revenue was between 92% and 116% of budgeted revenue in only one of the past three years in 2014.
3.2. Revenue composition outturn	D	Variance in revenue composition was less than 15% in only one of the past three years in 2014.

The Tax Revenue Division under the State Budget Policy Center of the Fiscal Policy Agency in the MOF is responsible for preparing the "tax baseline projection" which informs inter-ministerial discussions but is not made public. The Tax Revenue Division draws revenues from excise from DG Customs and Excise's data. DG Budget (Directorate of Non-Tax Revenue) estimate oil and gas income tax revenues and natural resources non-tax revenues based on the data from Ministry of Energy and Mineral Resources. "Tax revenue targets" are ultimately decided and included in the proposed budget, which are composed of baseline projections plus additional "policy and administration measures" that capture the estimated revenue impact of planned reforms for the year. The revenue targets are then discussed during government-parliamentary budget formulation sessions and consequently revised (usually upwards).

Weak revenue performance has emerged as a major fiscal challenge for the GOI, amid a challenging macroeconomic environment. However, the government has taken significant steps to improve revenue collection since 2015, including a tax amnesty program implemented between September 2016 and March 2017, aimed to broaden the tax base and collect data, and strengthen the credibility of tax collection efforts. The MOF has also launched a program of reforms of tax administration and policy under the supervision of the Tax Reform Team (*Tim Reformasi Perpajakan*). Further description is presented under PI-19 on revenue administration and under section 5 of this report

PI-3.1: Aggregate revenue outturn

The revenue-to-GDP ratio has been declining, falling from 14.7 percent in 2014 to 12.5 percent in 2016. This can be explained by the decline in natural resource-based revenues coupled with no increase or declines (as a share of GDP) in other tax revenues. The decline in oil and gas income taxes and natural resource non-tax revenues far outweighed the improvement in non-oil and gas income taxes. Actual domestic revenue was realized significantly below the budgeted domestic revenue, at 93.0 percent in 2014 of the budgeted domestic revenue, and further deteriorated in 2015 and 2016 to 84.1 percent and 85.1 percent, respectively, as follows:

Table 16: Actual Revenue Compared with Originally Approved Budget

Year	(IDR trillion)				
	Budget	Actual	Overall Variance (PI-3.1)	Absolute Deviation	Composition Variance (PI-3.2)
2014	1,667,141	1,550,491	**93.0%**	111,914	**7.2%**
2015	1,793,589	1,508,020	**84.1%**	277,711	**18.4%**
2016	1,822,400	1,555,934	**85.4%**	237,778	**15.3%**

Source: LKPP (financial statement of the central government) in respective years.

Two main factors explain Indonesia's deteriorating revenue collection performance. First, the commodity price collapse that began from mid-2014 onwards, particularly for oil, together with declining production, has resulted in significantly reduced natural resources related revenues. Thus, whereas about one quarter of state revenues in 2012 was derived from natural resources through tax (from income tax and VAT) and non-tax sources (production sharing and royalties), by 2016, this had fallen to less than 10 percent. Second, partly as a response to the budget pressures generated by the commodity price collapse and by a new incoming government with ambitious development plans, the government draw overly optimistic assumptions about its ability to grow tax revenues not related to commodities. For example, VAT revenue forecasts in 2014, 2015 and 2016 involved respectively a 28.1, 28.3 and 33.9 percent increases on previous year's actual revenues, when the actual VAT revenue collections grew by 14, 6.4 and 3.6 percent.

The calculations show that actual domestic revenue was between 92 and 116 percent of budgeted domestic revenue in only one of the past three years. **This qualifies for a "D" score.**

PI-3.2: Revenue composition outturn

This dimension of revenue outturns measures the variance in revenue composition during the past three completed fiscal years. It captures the accuracy of forecasts of the revenue structure and the ability of the government to collect the amounts of each category of revenues as intended.

Two factors can explain higher revenue composition variance: one is the volatile international commodity prices, as non-tax revenues, which are mostly commodities related, contributed on average one fifth of total revenue between 2014 and 2016. An additional factor is the frequency and multiplicity of fiscal reforms launched simultaneously, which makes it difficult to estimate the impact of tax policy changes on baseline revenue forecasts. For example, between 2013 and 2016, Indonesia altered the VAT taxable turnover threshold, added new exemptions to VAT and income tax, and issued annual tobacco excise regulations that changed the excise tariff and minimum retail price of tobacco from year to year.

The results, as shown in the table 15 above, suggest the variance in revenue composition was less than 15 percent in only one of the past three years, which **qualifies for a "D" score.**

Pillar Two: Transparency of Public Finances

PI-4: Budget Classification

This indicator assesses the extent to which the government budget classification used for formulation, execution and reporting, and the chart of accounts, is consistent with international standards and can allow for the tracking of transactions throughout the entire budget cycle for the last completed fiscal year, 2016.

International good practice establishes that the formulation, execution and reporting of the budget should be presented on administrative, economic and functional classifications,[11] and by program with a level of detail at least corresponding to the sub-functional classification. The measurement applies to fiscal year 2016.

Dimension and scoring

Score	Minimum requirements for scores
4.1. Budget classification	
A	Budget formulation, execution and reporting are based on every level of administrative, economic and functional classification using GFS/COFOG standards, or a classification that can produce consistent documentation comparable with those standards. Program classification may substitute for sub-functional classification if it is applied with a level of detail at least corresponding to sub-functional classification.
B	Budget formulation, execution and reporting are based on administrative, economic (at least "Group" level of the GFS standard—3 digits) and functional/sub-functional classification, using GFS/COFOG standards or a classification that can produce consistent documentation comparable with those standards.
C	Budget formulation, execution and reporting are based on administrative and economic classification using GFS standards (at least level 2 of the GFS standard—2 digits), or a classification that can produce consistent documentation comparable with those standards.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-4" Budget Classification

Indicator/Dimension (number and name)	Score	Brief Justification for Score
PI-4.1: Budget classification	**A**	**The same budget and accounting structure is consistently applied throughout the budget formulation, execution and reporting cycle according to organizational (administrative) units, function/sub function, economic and programmatic classifications, and it is compliant with latest GFS/COFOG standards.**

State Finance Law No. 17/2003 is the main legal basis to regulate the budget classification system for the central government. The detailed budget classification is defined under MOF Regulation No. 127/2015 and its amendment in MOF Regulation No. 114/2016. According to this regulation, the state budget is appropriated and allocated based on organizational units, functions (sub-functions), programs (activities) and economic classifications.

The functional classification is compliant with the Classification of the Functions of Government (COFOG) standard, with an additional function for religion. In total, there are 11 functions complemented by 79 sub-functions. The programmatic classification structure is not designed to substitute for the sub-functional classification, since the program classification is linked with the organizational units in which one program links to

11 Classification of Functions of Government (COFOG): ten main functions at the highest level and 69 functions at the second level (sub-functional).

activities and measurable outputs implemented by each Directorate General at Echelon I level in line ministries. However, each of these programs is mapped to the corresponding sub-functional classification.

In 2010, full accrual-based accounting standards were developed (Government Regulation No. 71/2010) that are aligned and consistent with International Public Sector Accounting Standards (IPSAS) and General Accepted Accounting Principles (GAAP). MOF Regulation No. 214/2013 regulates the detailed accounting classification, or Chart of Accounts (COA), which is consistently applied throughout the budget formulation, execution and reporting cycle without differences in classification. A later MOF Regulation No. 275/2014 was issued as a follow-up to the issuance of new Government Finance Statistics Manual (GFSM) in 2014. This aligns economic classification on expenditures and revenues with GFSM 2014, with eight types of expense category (employees' salary, use of goods and services, consumption of fixed capital, interest, subsidies, grants, social benefits and other expenses), and four main revenue categories (taxes, social contributions, grants and other revenues) that are structured into six digit levels to enable all different types of transaction to be captured.

Budget formulation, execution and reporting is based on every level of administrative, economic and functional classification that are GFS/COFOG -compliant, the score for this indicator is assessed as an "A".

PI-5: Budget Documentation

The indicator assesses the comprehensiveness of the budget process included in the annual budget documentation submitted to parliament for scrutiny and approval (RAPBN). The draft annual budget and supporting documentation should contain all the necessary information on the government's budget policy and priorities for proper review, scrutiny and approval by parliament.

Dimension and scoring

Score	Minimum requirements for scores
5.1.Budgetdocumentation	
A	Budget documentation fulfills 10 elements, including every basic element (1–4).
B	Budget documentation fulfills 7 elements, including at least 3 basic elements (1–4).
C	Budget documentation fulfills at least 3 basic elements (1–4).
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-5: Budget documentation

Indicator/Dimension (number and name)	Score	Brief Justification for Score
PI-5.1: Budget documentation	**B**	**The budget documentation is generally comprehensive. The budget documentation fulfills 9 of 12 elements including every basic element (1-4).**

The indicator assesses the draft budget presented in 2016 for the 2017 fiscal year. It was submitted to parliament against all the elements required by international good practice based on four core elements and eight additional ones.

The official annual budget documentation is prepared by DG Budget in the MOF and presented by the government to parliament. The most recent executive budget proposal for 2017 consists of:

- **Presidential budget speech:** in which the President lays out the main challenges and priorities for the next budget year. It is delivered before all members of parliament at a plenary meeting, which by tradition is held on August 16, a day before Indonesia's Independence Day on August 17;
- **Draft annual budget law:** setting the specific rules of the annual submission, estimated aggregate revenues and expenditures, and general provisions to be appropriated by parliament; and

- **Financial Notes** (around 500 pages): containing details of budget policy, revenue targets and expenditure allocations by economic, functional, administrative (ministry/agency) and program classification. They include an extensive narrative on budget priorities, macroeconomic assumptions, fiscal decentralization orientations and transfers, budget deficit and financing, a fiscal risk statement and other supplementary information, such as the previous budget realization performance for the past five years. The financial notes also include the medium-term budget projections for the next three years.

In addition, several other documents are submitted as a supplement to the budget documentation, as follows:

- **Medium-term National Development Plan** (RPJMN), prepared by the National Planning Agency (Bappenas) with over 1,000 pages. This contains the five-year policy priorities, objectives and program structure of government policies consistent with the presidential term;
- **Five-year Strategic Plan for line ministries** (Renstra), which operationalizes the Medium-term National Development Plan for each line ministry. This document is prepared by each line ministry following the medium-term strategic orientation defined in the RPJMN;
- **Annual Government Work Plan** (RKP) prepared by Bappenas, with about 1,200 pages, which contains a brief description of all the government's programs and activities for the next fiscal year, as well as indicative budget ceilings for each line ministry and program; and
- **Consolidated line ministries' budget submission** forms (collection of RKA-KL) prepared and submitted by each individual line ministry and consolidated by DG Budget. These present the detailed budget submissions of each line ministry of the central government by organization, function, sub-function, program, activity, output and economic classification.

The preparation and compilation of this very detailed and extensive budget documentation (at line item level) is a highly resource-intensive process and places a significant burden on those members of parliament who need to scrutinize the budget within a limited timeframe.[12] The table below shows the comprehensiveness of the information in the 2017 budget documentation against the four basic and eight additional elements required:

Table 17: Comprehensiveness of The Information Provided In The Annual Budget Documentation

No	Elements	Criteria Fully Met	Source Of Document And Comments On Availability
1	Forecast of the fiscal deficit or surplus or accrual operating result	**Yes**	See Financial Note of FY 2017 budget: Book II Section II Chapter 6.2 on the deficit policy, budget financing and medium-term financing projections (2018-20). The government calculates the fiscal deficit or surplus as revenues (tax, non-tax and grants) minus disbursements (operating expenditures, including interest payments and capital outlays). Forecasts are presented for the next fiscal year, i.e., 2017 with a three-year medium-term projection (2017-19). Projected fiscal deficit of 2017 is IDR 332.8 trillion or 2.41% of GDP that is financed through budget financing, including borrowings (debts/loans), investment financing, and guarantees. Available at www.kemenkeu.go.id
2	Previous year's budget outturn, presented in the same format as the budget proposal	**Yes**	See Financial Note of FY 2017 budget: Book II Section IV contains the state budget outturn for the past five years (2012-15 and APBN-P or revised budget for 2016) by line ministry, economic classification, function and sub-function.
3	Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn	**Yes**	See Financial Note of FY 2017 budget: Section II Table II.1.1. Posture of budget. The FY2017 budget proposal (R-APBN 2017) is presented in the same format as the revised 2016 budget (APBN-P).

12 It is worth mentioning that the December 31, 2016, Open Budget Index (OBI) report states "that the Government of Indonesia makes eight of eight key budget documents publicly available online in a timeframe consistent with international standards. This reflects a net increase over the findings of the Open Budget Survey 2015, which assessed the availability of documents up to June 30, 2014. Since that assessment, Indonesia has published the Pre-Budget Statement."

No	Elements	Criteria Fully Met	Source Of Document And Comments On Availability
4	Aggregated budget data for both revenues and expenditures according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates	**Yes**	See Financial Note of FY 2017 budget in Section I Table I.1. The section presents aggregated budget data for both revenues and expenditures, including data for the current and previous years. Section 3 shows the detailed breakdown of revenues, while the detailed expenditures for the current and previous years (i) are shown by functions in Table II.4.1; and (ii) by line ministry in Table II.4.4.
		Additional Elements	
5	Deficit financing, describing its anticipated composition	**Yes**	See Financial Note of FY 2017 budget: Book II Section II Chapter 6.1 describing the detailed composition of financing from debt, loans, investment financing, lending, guarantees and other financing types consistent with the regular information accessible from the DG Financing and Risk Management (DJPPR) website at: http://www.djppr.kemenkeu.go.id
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates and the exchange rate	**Yes**	See Financial Note of FY 2017 budget: Book II Section II Chapter 2.2 on the basic macroeconomic assumptions for proposed FY 2017 budget and a three-year medium-term projection (2018-20).
7	Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS, or other comparable standard	**Yes**	See Financial Note of FY 2017 budget: Book II Section IV chapter 6.2.1 on budget financing. The debt stock is detailed by type of (foreign and domestic) loans and government debt (bonds) in line with the detailed information available from the DG Financing and Risk Management website at: http://www.djppr.kemenkeu.go.id
8	Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS, or other comparable standard	**No**	The breakdown of government financial assets data is presented in accordance with GFS and included in the audited government annual financial reports (LKPP) as part of the year-end budget realization and accountability reports submitted to parliament http://www.bpk.go.id/assets/files/lkpp/2016/lkpp_2016_1495619163.pdfe although the LKPP is not part of the budget documents (the executive's budget proposals) submitted to parliament for scrutiny and approval.
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on	**Yes**	See Financial Note of FY 2017 budget: Book II Section III on Fiscal Risk, including the detail of all contingent liabilities in Chapter 2.4.2. The summary information of fiscal risks can be found in Table III.1.1. This table shows a detail description of the fiscal risks and liabilities for the current year and the past few years, in line with the regular information accessible from the DG Financing and Risk Management website at: http://www.djppr.kemenkeu.go.id The disclosure of fiscal risk information in the financial note document was qualified positively in the IMF report "the observance of standard and codes (ROSC) - fiscal transparency module" (see page III.1-3 of financial note 2017). BPK has also been regularly conducting assessments into the implementation of central government fiscal transparency from 2008 to 2014.
10	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs	**No**	2017 Financial Note Section I Chapter 3 highlighting the revenue orientations and fiscal measures. A general statement on new budget orientations and proposed budget allocations is available but with no quantification or systematic identification of new policies initiatives and their impact on the budget.

No	Elements	Criteria Fully Met	Source Of Document And Comments On Availability
11	Documentation on the medium-term fiscal forecasts	**Yes**	See Financial Note of FY 2017 budget: Book II Section II Chapter 2 on the basic macroeconomic assumptions for the proposed FY 2017 budget and three-year medium-term forecasts.
12	Quantification of tax expenditures	**No**	The concept of tax expenditures in Indonesia is not officially defined and applied, and therefore the quantification of tax expenditures is not reflected in any budget documents presented to parliament.

The budget documentation submitted through the APBN process is comprehensive and fulfills the four basic elements and five additional ones, and is thus **consistent with a "B" score.**

PI-6: Central Government Operations outside Financial Reports

This indicator assesses whether the revenue and expenditure operations of the central government that are not included in the APBN, extra-budgetary or off-budget funds, and that are not reported regularly in ex-post financial reports available to government are significant compared with total budgeted expenditure for the last completed fiscal year, 2016. International good practice establishes that ex-ante or ex-post fiscal reports to parliament should allow for a complete picture of revenues and expenditures across all categories. Extra-budgetary entities that are implementing government policies, but that by law have their own budget, income, management autonomy and a certain degree discretion over the volume and composition of their expenditures, should be included in this reporting process.

Dimension and scoring

Score	Minimum requirements for scores
6.1. Expenditure outside financial reports	
A	Expenditure outside government financial reports is less than 1% of total BCG expenditure.
B	Expenditure outside government financial reports is less than 5% of total BCG expenditure.
C	Expenditure outside government financial reports is less than 10% of total BCG expenditure.
D	Performance is less than required for a "C" score.
6.2. Revenue outside financial reports	
A	Revenue outside government financial reports is less than 1% of total BCG revenue.
B	Revenue outside government financial reports is less than 5% of total BCG revenue.
C	Revenue outside government financial reports is less than 10% of total BCG revenue.
D	Performance is less than required for a "C" score.
6.3. Financial reports of extra-budgetary units	
A	Detailed financial reports of ***all*** extra-budgetary units are submitted to the government annually within three months of the end of the fiscal year.
B	Detailed financial reports of ***most*** extra-budgetary units are submitted to the government annually within six months of the end of the fiscal year.
C	Detailed financial reports of the ***majority*** of extra-budgetary units are submitted to the government annually within nine months of the end of the fiscal year.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-6: Central government operations outside financial reports (M2 Methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
PI-6: Central government operations outside financial reports	**A**	**Revenues and expenditures outside the government financial reporting represent less than 1% of total revenues and expenditures and detailed financial reports of the BLU are submitted within three months of the end of the fiscal year.**
PI-6.1: Expenditure outside financial reports	A	The establishment of the TSA and the inventory of (expenditure) bank accounts guarantee the consolidation of government expenditure transactions into government operations and reporting. Extra-budgetary units defined as BLU are consolidating their operations within the line ministries. A small amount of unreported grant expenditures from development partners was identified in 2016 (i.e., 0.15% of total expenditure budget in FY 2016).
PI-6.2: Revenue outside financial reports	A	The establishment of the TSA and the integration of all (revenue) bank accounts guarantee that all revenue collection accounts in collecting banks are consolidated by DG Treasury.
PI-6.3: Financial reports of extra-budgetary units	A	The only type of extra-budgetary unit according to the definition from GFSM 2014 in the Indonesian context is BLU. BLU financial reports are submitted and consolidated into the government annual financial reports within three months of the end of the fiscal year. Their assets are consolidated within the state asset reporting and their annual work plan and budget integrated within their respective parent ministry budget.

Since the full implementation of the Treasury Single Account (TSA) in 2010, BPK considers that the issue of unreported central government operations or "illegal accounts" is no longer material and has not raised this issue in its LKPP audit reports. The last PEFA assessment in 2012 however, still identified the existence of hundreds of special government entities, foundations and military enterprises that were operating outside the hierarchy of a central government entity.

Since 2012,, significant efforts to liquidate all unreported government operations have been made through different means: liquidation of the entities, legal inclusion of those activities into a relevant parent line ministry, or establishment of separated legal entities such as state-owned enterprises (or BUMNs for SOEs), state-owned legal entities (or BHMNs, mostly universities), foundations or state companies, or non-SOEs, totally separated from the central government reporting process and have separate accountability arrangements (see PI-10).

PI-6.1: Expenditure outside financial reports

The extra budgetary units, as per GFSM 2014 definition, are the *Badan Layanan Umum* (BLU). The legal basis for the existence of a BLU is State Treasury Law No. 1/2004 and Government Regulation No. 74/2012 on BLU. At the end of 2016, 172 public services agencies, or BLU, had been established under the hierarchy of the 18 central government line ministries.

Table 18: Number of BLU per Line Ministry

No	Ministry/Agency	Number of BLU
1	Ministry of Health (hospitals, health research)	53
2	Ministry of Finance (specific endowment funds, revolving funds)	5
3	Ministry of Agriculture (research unit)	2
4	Ministry of Industry (research unit)	5
5	Ministry of Religious Affairs (university)	16
6	Ministry of Cooperative and SMEs (revolving funds)	2
7	Technology Implementation and Assessment Board (BPPT)	1
8	National Police	26
9	National Institute of Aeronautics and Space (LAPAN)	1
10	Ministry of Transport	23
11	Ministry of Energy and Mineral Resources	1
12	Ministry of Public Works	2
13	State Secretary	2
14	Batam Free Trade zone	1
15	Sabang Free Trade zone	1
16	Ministry of Forestry	1
17	Ministry of Communications and Information	1
18	Ministry of Higher Education and Research (universities)	29
	Total:	**172**

The BLU are semi-independent agencies primarily established for the state universities, hospitals, research agencies or agencies with revolving funds for specific purposes, for example the Education Endowment Fund. In the 2016 budget realization report (LKPP), they represented IDR 41.9 trillion in revenues (2.7 percent of total state revenues) and IDR 34.7 trillion in expenditures, including salaries and IDR 3.5 trillion of capital expenditure (2 percent of total state expenditure). Although they are considered extra-budgetary units, BLU operations are directly reported and integrated in central government reports (LKPP) through their parent line ministries.

A few Special Accounts are still held outside the TSA, such as (court) bail-out funds; haj (pilgrim) funds; and other endowment funds. These funds are not consolidated into the TSA since they are managed by the government but do not belong to government operations. Nonetheless, for accountability reasons the government still includes the end-year balances of these Special Accounts in the LKPP. Because of the restrictions imposed by the institution of the TSA, all revenues (tax and non-tax) must be consolidated into the government's general cash account under the TSA.

The amount of unreported revenues and expenditures outside the budget framework is very limited and does not exceed 1 percent of the total. **The score for this indicator is assessed as an "A".**

PI-6.2: Revenue outside financial reports together with PI-6.3: Financial reports of extra-budgetary units

Similar to all other budgetary units, BLU are required to prepare a strategic business plan (Renstra) for a period of five years, including programs, activities, performance target and budget. Based on their Renstra, BLU formulate annual budget plans that are then consolidated into their parent ministry's work-plan and budget (RKA-KL). The MOF reviews the annual budget of each BLU during the line ministry's budget submission process.

At the end of every fiscal year, BLU prepare detailed financial reports based on Financial Accounting Standards issued by the Indonesian Accounting Board (KSAP). These financial reports are completed one month after the end of the reporting period and consolidated into the financial report of the parent ministry to then be audited by the external auditor. In 2016, the government's detailed financial reports (LKPP) including the BLU were published and available on the MOF website as of March 30, 2017.

Externally financed projects or grants and loans from development partners are regulated by Government Regulation No. 10/2011, requiring that both government-executed, as well as development partner-executed funds be included in the government financial reporting process. Furthermore, MOF Regulation No. 191/2011 simplifies the year-end reporting requirement of the grants received directly by line ministries to the local treasury office (KPPN). The report on direct grant realization is consolidated by DG Treasury into the government's annual financial reports (LKPP), allowing for a comprehensive central government financial report.

In 2016, small amounts from development partner-executed grants were still directly provided to some line ministries and not included in audited government annual financial reports (off-budget and off-treasury) due to the lack of compliance of some development partners and line ministries. In the FY 2016 audited report, BPK mentions a total of IDR 2.85 trillion (around 0.15 percent of total state budget) of direct grants from development partners that was not properly reported by 16 line ministries. This sum is less than 1 percent of total revenues and expenditures.

Hence, **score for these two dimensions is assessed as an "A".**

PI-7: Transfers to Subnational Governments

This indicator analyzes the decentralized governance arrangements and the transparency, accuracy and timeliness of transfers from the central government to subnational governments with a direct financial relationship to it as defined under section 2.3 of this report. The indicator considers the basis for transfers, whether subnational governments receive information on their allocations in time for their own budget planning and effectively receive these allocations according to the established calendar for the last completed fiscal year, 2016.

Dimension and scoring

Score	Minimum requirements for scores
7.1 System for allocating transfers	
A	The horizontal allocation of ***all*** transfers to subnational governments from central government is determined by transparent, rule-based systems.
B	The horizontal allocation of ***most*** transfers to subnational governments from central government is determined by transparent, rule-based systems.
C	The horizontal allocation of ***some*** transfers to subnational governments from central government is determined by transparent, rule-based systems.
D	Performance is less than required for a "C" score.

7.2. Timeliness of information on transfers	
A	The process by which subnational governments receive information on their annual transfers is managed through the regular budget calendar, which is generally adhered to and provides clear and sufficiently detailed information for subnational governments to allow at least six weeks to complete their budget planning on time.
B	The process by which subnational governments receive information on their annual transfers is managed through the regular budget calendar, which provides clear and sufficiently detailed information for subnational governments to allow at least four weeks to complete their budget planning on time.
C	Substantial delays may be experienced in implementation of the budget procedures. Information on annual transfers to subnational governments is issued before the start of the subnational governments' fiscal year, which could be after budget plans are decided.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-7: Transfers to subnational governments (M2 Averaging Method)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-7	**B**	**Most of the transfers to subnational governments are based on clearly defined set of rules, procedures and timing of the information provided to the subnational governments allowing six weeks before the deadline for budget approval by regional parliament (December 31 of prior year).**
PI-7.1: System for allocating transfers	C	73.9% of the central government's transfers to subnational governments are rule-based, transparent and predictable in their calculation and in the use of underlying data.
PI-7.2: Timeliness of information on transfers	A	In 2016, information on most of the transfers were uploaded to the DG Fiscal Balance website right after the State Budget Law was approved on October 26, providing the regions with two months to include relevant information in their budgets.

Transfer to subnational governments constitutes about 50 percent of the national budget in Indonesia (excluding subsidies and interest payments).[13] The main institution responsible for managing inter-governmental transfers is DG Fiscal Balance (DJPK), in the MOF, responsible for preparing the presidential decree on the allocation of all intergovernmental transfers to individual districts, and overseeing the disbursement of these transfers. The role of Ministry of Home Affairs (MOHA) is to facilitate the implementation, such as ensuring that technical guidelines are issued in a timely manner for the subnational governments to implement their budgets. The intergovernmental fiscal transfer system in Indonesia consists of several types of grants, as follows:

- **DAU (General Allocation Fund)** is a block grant provided to provinces (the first tier of local government), and *kabupaten/kota* (districts/cities, the second tier of local government);
- **DBH (Revenue Sharing Fund)** is a part of national revenue that is shared with provinces and districts/cities. The revenue stream being shared includes personal income tax, property tax (mining and plantation segments), natural resource revenues (oil, gas, other mining, forestry, fishery), and tobacco excise;
- **DAK (Special Allocation Fund)** is an earmarked grant to finance special activities under local government authority. DAK consists of DAK *Fisik,* mainly for financing capital expenditures, and DAK *Non Fisik,* mainly to provide additional financing for the operational cost of service delivery, for instance through school and health center operational assistance (BOS and BOK);
- ***Dana Desa* (Village Fund)** is a block grant provided to villages (the lowest tier of autonomous local government), and is the newest intergovernmental grant introduced through the implementation of the Village Law in 2015; and
- **Other types of transfers**, including the Special Autonomy Fund for Aceh and Papua, the special fund for Yogyakarta, and regional incentive grants (DID) distributed to local governments according to their rank in performance rating from the MOF.

13 UU APBN 2016.

Table 19: Composition of Transfers (IDR trillion)

Funds	Type	2014		2015		2016		
		Budget	Actual	Budget	Actual	Budget	Actual	% of Total
DAU	General allocation	341.22	341.22	352.90	352.9	385.36	385.36	54.3%
DAK	Special allocation-*Fisik*	33.00	31.89	58.82	54.88	89.81	75.21	10.6%
	Special Allocation- *Non Fisik*[12]	86.50	78.63	102.69	97.17	121.21	88.67	12.5%
DBH (Revenue Sharing)	Tax and Excise	45.00	41.94	50.85	35.77	68.62	50.64	7.1%
	Natural Resources	62.00	62.00	47.04	42.28	40.46	39.89	5.6%
Dana Desa	Village Fund	0	0	20.77	20.77	46.98	46.68	6.6%
Others		18.12	18.02	19.38	19.38	23.81	23.81	3.4%
	Total Transfers:	**585.84**	**573.70**	**652.45**	**623.15**	**776.25**	**710.26**	**100%**

This assessment focuses on the allocation of the four major transfers, namely, DAU, DAK, DBH (revenue sharing), and *Dana Desa*, which together represented 96.6 percent of total intergovernmental transfers in 2016.

PI-7.1: System for allocating transfers

International good practice on the transfer of resources from the central government to subnational governments does not establish criteria for the total amount that should be transferred (vertical allocation). Instead it suggests that there should be a normative distribution between all subnational governments (horizontal allocation) based on rules and formulas with relevant and easy-to-use or to access calculation variables to ensure predictability and transparency of their resources.

This dimension assesses the allocative transparency and objectivity in the budgeting and the actual allocation of transfers through transparent, rule-based systems, and the medium-term predictability of funds available for planning and budgeting of expenditure programs by subnational governments.

Transfers from the central government to subnational governments in Indonesia are based on various formulas and fixed denominators, as per Table 18 above. The allocation processes for DAU, *Dana Desa*, the Special Autonomy Fund and the Regional Incentive Fund (DID) are largely under the control of DG Fiscal Balance and are based on a pre-determined formula. Parliament approves the allocation before a presidential decree is issued.

DAU allocation formula is defined by Law No. 33/2004 on Financial Decentralization and Government Regulation No. 55/2005 on the Balancing Fund,[15] which stipulates that DAU allocations are based on two components: a basic allocation that covers personnel expenditures of subnational governments, and a fiscal-gap formula-based allocation. The fiscal-gap formula is calculated based on each region's own fiscal capacity, measured as the sum of own-source revenue and shared revenue, minus a region's fiscal needs, measured by average expenditures per district adjusted by several factors, such as population, area and HDI (as a proxy for degree of demand for publicly provided services), and the construction cost index.

Although in general the DAU allocation follows the framework set out in Law No. 33/2004 on Fiscal Decentralization, some discretionary changes may take place during the annual budget process: in the variables included as adjustment factors, or in the definition of the DAU pool (part of the national revenues to be shared with subnational governments) and in the weight given to each of the adjustment factors. The weights of the adjustment factors are adjusted to achieve minimum inequality across regions, as measured by the Williamson

14 Before 2015, Adjustment Fund

15 This law is planned to be revised in the near future. The revision process has been included as one of the parliament's priority legislation in 2017 (Prolegnas). The revision will include some changes in allocation formula for some types of intergovernmental transfers.

Index[16]. The weights are agreed between the MOF and parliament as part of the annual budget process, and documented in the *Nota Kesepakatan Pemerintah dan DPR* (Note of Understanding between the Government and Parliament). This document forms an attachment to the annual budget law (UU-APBN), although it is not included in the published version of the budget law.

The underlying data used for the allocation are accessible to the recipient subnational governments from DG Fiscal Balance, where subnational governments can ask for a breakdown of their DAU allocation, called a "*Pohon* DAU" (DAU tree). This explains how much DAU comes from the different components. By implication, subnational governments can work out what the weights in the formula are. But the publication of the underlying dataset is the responsibility of the Central Bureau of Statistics (BPS) and can be delayed or irregular. While BPS did publish the underlying dataset for DAU allocations for FY 2015 and FY 2014 on its website (https://www.bps.go.id/index.php/publikasi/956), the publication of the DAU dataset for FY 2016 was not yet available as of May 2017. **The overall transparency of the DAU allocation is therefore limited.**

The overall classification for the Special Allocation Fund, or DAK, went through major changes in 2015 and 2016. DAK, in its original format, was intended to finance specific activities considered to be a national priority by the central government under the implementation authority of subnational governments. Originally, it was mainly used to finance capital expenditures in specific sectors and subsectors, and even sometimes used to finance recurrent expenditures. In 2015, the central government introduced the non-physical DAK category *(*DAK *Non Fisik)* to provide additional financial support for operational costs of frontline delivery units, i.e., schools and health centers (BOS and BOK), and for some specific deconcentrated projects. Thereafter, DAK was divided into DAK *Fisik*, a renaming of "original" DAK, and DAK *Non Fisik*. DAK *Fisik* was further broken down into three types: (i) regular DAK to finance activities in priority sectors and provided to any district meeting the relevant criteria; (ii) affirmation DAK provided to less developed, remote and border regions; and (iii) special assignment DAK (DAK *Penugasan)* to finance priority activities in priority regions.

The allocation mechanism for DAK *Fisik* in 2016 is based on MOF Decree No. 48/2016, which requires districts to submit a proposal for DAK allocations. The responsibility for the DAK *Fisik* allocation process is divided between Bappenas in charge of the identification of the sectors that will receive DAK and alignment with the national development plan; and technical ministries for the allocation based on sectoral criteria. The assessment by Bappenas is based on criteria set out in an MOF decree, and relevant line ministries apply more subjective criteria, such as the alignment of the proposal with the orientations from each technical ministry, the achievement by districts of minimum service standards, outputs, and benefits in the short and medium term.

As a result, there is less clarity on how the ministries involved in the assessment of districts' submissions (the MOF, Bappenas and the line ministries) apply the criteria to screen out and select the proposals. This has reduced the degree of transparency in the DAK *Fisik* allocations.

In the 2018 budget process, subnational governments get more clarity in the allocation of DAK funding and this transparency issue has been reduced as an assessment and prioritization process involves discussion between MOF, Bappenas, and line ministries with subnational governments in eight regional synchronization forums. The assessment and synchronization forums for DAK *Fisik* focus on prioritizing the projects and outputs that will be funded, not on the amount the subnational government will receive. The final allocation is made after consultations with parliament, taking into account the estimated budget for the prioritized project.

The DAK *Non Fisik* allocation is defined by DG Fiscal Balance responsible for the confirmation of the data provided by sectoral line ministries (e.g., number of student for school operational assistance/BOS) and the determination of the allocation for individual districts; and line ministries are responsible for the policy-setting dimension. The majority of DAK *Non Fisik* is allocated on a cost-per-unit basis. The largest amount of DAK *Non Fisik* relates to school operational assistance (BOS) distributed on a per-student basis. The second major component covers teacher allowances for certified teachers, as well as special allowances for teachers in remote regions. This DAK type also has clear allocation rules. Allocation is based on the number of eligible teachers. The other component of DAK *Non*

16 In a simple way, Williamson Index can be described as a coefficient of variation in allocation across regions weighted by region's share in national population.

Fisik with much lower allocation covers operational support costs for health centers (BOK), family planning (BOKB) and civil registration.

Although not published, the underlying data for DAK *Non Fisik* allocation are clear and accessible upon request.

The Revenue Sharing Fund (DBH) is a transfer that re-allocates two types of resources: tax and excise (land and building taxes, income tax, tobacco excise); and natural resources (forestry, general mining, fishery, oil, natural gas, geothermal) to all districts with a larger proportion of revenues going to resource-rich districts from where the revenues originated. DBH is allocated to the regions based on a percentage according to the type of revenue sharing.

The DBH tax and excise sharing allocation is distributed using a clear formula. For instance, for the personal income tax (PPh 21) the allocation is 8.4 percent for districts/cities where taxpayers reside, 3.6 percent equally distributed to districts/cities in the corresponding province, 8 percent for the provincial government, and 80 percent for the central government. **The rules for distributing tax revenue sharing are clear and the underlying data are provided by DG Tax upon request.**

The rules for DBH natural resources as stipulated in Law No. 33/2004 and Government Regulation 55/2005 are clear and transparent and the DBH allocation formula is published on the DJPK website. Several technical ministries are involved in the allocation process for DBH natural resources revenue sharing (e.g., the Ministry of Energy and Mineral Resources or MEMR, the Ministry of Forestry and Ministry of Home Affairs or MOHA if the producing area expands across more than one region) and **therefore all underlying data used for the allocation based on production data have to be collected from various line ministries.**

Subnational governments often disagree with the production data provided by the central government but there is no way of reconciling the data from the line ministries. **As a result, there is less clarity for subnational governments on their allocations, as it is difficult for them to forecast or reconcile their allocations**.

In 2017, considerable efforts have been made to improve the transparency of the DBH natural resources calculation, with DG Fiscal Balance posting a manual online that explains the process of calculating the (natural-resources based) transfers. This was produced together with the relevant line ministries, as part of an initiative led by the Corruption Eradication Commission (KPK), under Presidential Regulation No. 10/2016 on Transparency.

Starting in FY 2015, the government introduced a new intergovernmental transfer with the Village Fund (*Dana Desa*). This transfer was introduced after Law No. 6/2014 on Villages (known as the "Village Law") was passed, mandating the provision of funds directly to villages, the lowest level of local government below provinces and districts/cities. While the channeling of the Village Fund is done through the district/city government Treasury office, the Village Fund is not part of the district budget, and is not considered to be part of the balancing fund. The rules for allocating the fund are clearly set by a MOF decree. The allocation formula suggests that 90 percent of the total allocation should be distributed evenly to about 75,000 villages in Indonesia, and another 10 percent distributed through a formula that represents the relative proportion of each village to the national average in terms of population, poor population, area and the construction cost index.

The underlying dataset of the Village Fund allocation is not published by DG Fiscal Balance (DJPK), but can be requested from agencies that issue the data, thus transparency is limited.

Although in general most transfers are rule-based and include some provisions for transparency, the key issue of the predictability of transfers remains: subnational governments cannot be sure of the amount of the transfer they will receive until the central government budget is approved on October 31 of every year. To give subnational governments a basis for budgeting, the MOHA issues an annual Ministry Regulation (Permendagri) setting out budget guidance for local governments. This advises local governments to use the previous year as the basis for budgeting for DAU and DBH. This provides reasonable predictability because these transfers do not change that much from one year to the next, except when there was a significant drop in natural resources revenue sharing from 2014 to 2015.

DAK *Fisik* has traditionally been the most unpredictable transfer. This is because the total allocation for the transfer is only determined after the parliamentary budget process has been completed. Parliament plays a role in creating unpredictability, because it can change allocations between sectors during the budgetary discussions, which then affect allocations to individual districts within that sector.

The consolidation of the analysis for each transfer is presented in the table below:

Table 20: Assessment of Arrangements by Type of Transfers

Types of Transfer	Share of Transfers in 2016	Yes/No the transfer is rule-based and transparent and explanation
DAU	**54.3%**	**Yes, the transfer is rule-based, with partial transparency on formula and data. The issuance of a Permendagri to use the previous year's allocation for budgeting mitigates the lack of predictability of fund allocations to subnational governments.**
DAK *Fisik*	10.6%	No, the allocation is rule-based but the way assessment criteria apply to the proposals from subnational governments lacks clarity. Subnational governments cannot predict the allocation of transfers and include them in the planning and budgeting process.
DAK *Non Fisik*	**12.5%**	**Yes, the allocation is rule-based and the calculation is based on clear and accessible data.**
DBH Tax and Excise	**7.1%**	**Yes, the allocation is rule-based on information from subnational level and the basis for calculation is shared with receiving regions.**
DBH Natural Resources	5.6%	No, the allocation for DBH natural resources revenue sharing uses production data of the regions. However, there are always disagreements between central and local governments on the underlying data, reducing the predictability of the allocation.
Dana Desa/Village Fund	6.6%	No, the allocation is rule-based but transparency is somewhat reduced because underlying data for the calculation are not available (baseline data from villages are not published).
Percentage of transfers considered as rule-based, predictable and transparent	**73.9% out of 100% transfers**	**73.9% of transfers covering the central government horizontal allocation across districts is defined through a transparent and predictable rule-based system.**

Therefore, **the score for dimension 7.1 is assessed as a "C".**

PI-7.2: Timeliness of information on transfers

This dimension measures the extent to which: 1) subnational governments receive reliable information on their allocations from the central government for the upcoming year, well in advance of their own budget preparation process (ideally before its commencement) and 2) the calendar is respected.

In FY 2016 (the last completed fiscal year), information on the allocation of the major transfers to subnational governments, DAU, DAK and DBH, was provided to the regions immediately after the state budget was approved by parliament at the end of October, or about eight weeks before the deadline for districts' budget approval by local parliaments (December 31). This information was posted on the website of DG Fiscal Balance at www.djpk.kemenkeu.go.id. The official notification was provided after the presidential decree containing the detailed allocation was published on November 30, 2016. The table below outlines the budget calendar applicable at the districts level and the effective dates from two pilot PEFA assessments undertaken at the subnational government level.

Table 21: Budget Calendar at the Subnational Level

No	Activities	Deadline	Actual Dates for 2016 (from PEFA SNG Assessments)
1	Preparation of Government Annual Work Plan (RKPD) and Work Unit Work Plan (Renja SKPD)	End of May	June 27(Lamongan) and May 29 (Balikpapan)
2	Preparation of General Budget Policy and Temporary Budget Ceiling (KUA PPAS) including finalization of agreement with local parliament	End of July	n.a.
3	Preparation of annual work plan and budget of work unit	End of September	October 19 (Lamongan) and September 28 (Balikpapan)
4	Submission of local budget draft to the parliament	1st week of October	October 31 (Lamongan) and November 16 (Balikpapan)
5	Parliament approve draft budget	November 30	November 10 (Jatim province), November 14 (Lamongan district) and November 30 (Balikpapan Kota)
6	Submission of draft budget to be evaluated by province (district) or the MOHA (province)	3 days after parliament approval	n.a
7	Evaluation provided by the MOHA or the provincial government	15 working days after draft is submitted for evaluation	n.a
8	Incorporation of evaluation result	7 working days after evaluation is received	n.a
9	Draft budget is legislated into local regulation	December 31	December 14 (Lamongan) and December 23 (Balikpapan)

Subnational governments receive information on their annual transfers following the official budget calendar, with clear information on ceilings and purpose, and have more than six weeks to complete their budget planning before the end of the fiscal year, the legal date for the approval of the subnational budgets by local parliaments. Therefore, **the score for dimension 7.2 is assessed as an "A".**

However, for **the two subnational governments sampled above, the submission of their subnational budgets to local parliaments occurred within one to four weeks of notification of the final allocation approved at the central level, but still more than six weeks before the end of the fiscal year.** Although it does not affect the performance and the scoring, as it reflects a choice of the subnational governments considered, it demonstrates that earlier notification of the budget allocations would be more effective for the subnational planning process.

In order to facilitate the alignment of the subnational budget formulation process to the national one, the recent PP No. 17/2017 applicable for the 2018 budget obliges the central government to communicate indicative budget ceilings in the transfers to the regions of DAK and the Village Fund as early as June. Whether the ceilings will be defined at the sectoral level, program level, or aggregated into a per-region allocation remains to be decided at the time of this PEFA assessment.

PI-8: Performance Information for Service Delivery

This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out and the extent to which information on resources received by service delivery units is collected and recorded. The inclusion of performance information within budgetary documentation strengthens the accountability of the executive for the planned and achieved outputs and outcomes of government programs and services.

Dimension and scoring

Score	Minimum requirements for scores
8.1. Performance plans for service delivery	
A	Information is published annually on policy or program objectives, key performance indicators, outputs to be produced, and the outcomes planned for ***most*** ministries, disaggregated by program or function.
B	Information is published annually on policy or program objectives, key performance indicators, and outputs to be produced or the outcomes planned for ***most*** ministries.
C	Information is published annually on the activities to be performed under the policies or programs for the ***majority*** of ministries or a framework of performance indicators relating to the outputs or outcomes of the ***majority*** of ministries is in place.
D	Performance is less than required for a "C" score.
8.2. Performance achieved for service delivery	
A	Information is published annually on the quantity of outputs produced and outcomes achieved for ***most*** ministries disaggregated by program or function.
B	Information is published annually on the quantity of outputs produced or the outcomes achieved for ***most*** ministries.
C	Information is published annually on the activities performed for the ***majority*** of ministries.
D	Performance is less than required for a "C" score.
8.3. Resources received by service delivery units	
A	Information on resources received by frontline service delivery units is collected and recorded for at least two large ministries, disaggregated by source of funds. A report compiling the information is prepared at least annually.
B	Information on resources received by frontline service delivery units is collected and recorded for at least one large ministry. A report compiling the information is prepared at least annually.
C	A survey carried out in one of the past three years provides estimates of the resources received by service delivery units for at least one large ministry.
D	Performance is less than required for a "C" score.
8.4. Performance evaluation for service delivery	
A	Independent evaluations of the efficiency and effectiveness of service delivery have been carried out and published ***most*** ministries at least once within the last three years.
B	Evaluations of the efficiency and effectiveness of service delivery have been carried out and published for the ***majority*** of ministries at least once within the last three years.
C	Evaluations of the efficiency or effectiveness of service delivery have been carried out for ***some*** ministries at least once within the last three years.
D	Performance is less than required for a C score.

Summary of Scores and Performance for PI-8: Performance information for service delivery (M2 Methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-8	**C+**	**Performance information (both financial and non-financial) is presented and published in the budget documentation and year-end reports. The 2014-15 survey provides estimates of the resources received by the frontline services and an evaluation of service delivery performance was carried out but not made available to the public.**
PI-8.1: Performance plans for service delivery	B	The government annual work plan (RKP) provides program objectives together with their key performance indicators for the planned outputs/outcomes for most line ministries/ institution along with the indicative budget ceilings for every line ministries/institutions. But the definition of output and outcomes is not always consistent.
PI-8.2: Performance achieved for service delivery	B	Most of the K/L prepare a performance report that includes detailed programs and activities with: targeted indicators for individual activity; financial progress in terms of budget plan and realization; and elements of outputs/outcomes compared with the planned targets and achievements. The report is normally published in the ministry's website.
PI-8.3: Resources received by service delivery units	C	Detailed information and estimation on actual sources of funds received by service delivery unit (school and primary health care facilities) can only be obtained through the Indonesia Family Life Survey conducted in 2014-15.
PI-8.4: Performance evaluation for service delivery	C	Although performance evaluations for service delivery are regularly conducted for each K/L, the evaluation reports are not made publicly available.

The Ministry for State Administration and Bureaucratic Reform (MENPANRB) established through President Decree No. 19/1968 is responsible for performance measurement across the service delivery ministries with a mandate to formulate and establish policy in the areas of bureaucratic reform, monitoring and accountability of public institutions.

PI-8.1: Performance plans for service delivery

This dimension assesses the inclusion of key performance indicators for planned outputs and outcomes of programs and services in the 2017 budget proposal.

Performance budgeting is governed by the National Medium-term Development Plan (RPJMN) 2015-2019, in accordance with implementation of the provisions of Article 19 Paragraph (1) of Law No. 25/2004 on the National Development Planning System and Presidential Decree No.2/2015. The RPJMN covers: (i) guidelines for line ministries/institution (*Kementerian Lembaga*, or K/L) in preparing the preparing the strategic plan; (ii) preparation and adjustment material of the Regional RPJM; (iii) government guidelines in preparing the annual Government Work Plan (*Rencana Kerja Pemerintah*, or RKP); and (iv) baselines for monitoring and evaluation of its implementation. The RKP outlines annual national priorities and development strategies, public policies, programs of K/L and across-K/L, regional and cross-regional, as well as the macroeconomic framework the fiscal policy orientation and regulatory and indicative funding frameworks.

The program objectives and respective key performance indicators for the planned outputs and outcomes to be financed through the central government budget are published annually in the national work plan (RKP). Based on Presidential Decree No. 45/2016, RKP 2017 aims to provide: (i) a reference for the government preparing the 2017 draft budget; (ii) guidance for K/L in preparing their respective work plans (*Rencana Kerja/* Renja); and (iii) a reference for local governments in preparing their local government annual work plans for 2017. Accordingly, as the basis for preparing the executive budget proposal (RAPBN), RKP also provides individual line ministries (K/L) with the indicative budget ceiling for their respective programs and activities.

The summary of key performance indicators with the target outputs for all line ministries/agencies is also presented in the executive budget proposal and published. The summary of programs, targets, indicators and outputs for every K/L is listed in the 2017 executive budget proposal under Section 4 on Central Government Policy and RAPBN 2017 Budget Spending and the 2018-20 Medium-term Projection. The information on the sample data obtained on service delivery performance is summarized in the table below. The table includes details of resources allocated to each ministry, when service delivery programs are greater than 50 percent of expenditure, and when information is provided regarding program objectives, and planned and achieved outputs, outcomes or activities.

Table 22: Performance Data on Planned Service Delivery (SD)

Ministry/Agency	Budget Allocation (IDR billion)	SD > 50% (Y/N)	Program Objectives	Performance Indicators	Performance Data for Planned SD Programs		
					Outputs	Outcomes	Activities
Health	58,267	Y	Y	Y	Y	Y	Y
Public Works and Housing	105,565	Y	Y	Y	Y	Y	Y
Transportation	48,732	Y	Y	Y	Y	Y	Y
Social Affairs	18,325	Y	Y	Y	Y	Y	Y
Education and Culture	39,823	Y	Y	Y	Y	Y	Y
Agriculture	23,907	Y	Y	Y	Y	Y	Y
Research, Technology, and Higher Education	39,382	Y	Y	Y	Y	Y	Y
Religious Affairs	60,734	Y	Y	Y	Y	Y	Y
Total budget value of the KL selected	394,735						
%age of SD ministries by value compliant			100%	100%	100%	100%	100%
Coverage			All SD ministries (i.e. > 90% by value of SD ministries)	All SD ministries (i.e. > 90%)	All (>90%)	Most (>75%)	Majority (>50%)

Source: RKP 2017 and RAPBN 2017.

However, despite the formal availability of information by targets and output and outcome indicators, the use of this performance terminology is not applied consistently and therefore reliable across line ministries. This can be explained by the fact that the terminology is only broadly defined in the strategic planning formulation guidelines and by the limited technical capacity of the line ministries to process a very large amount of output data (in total there were about 12,000 outputs in 2016).

Furthermore, the lack of a consistent performance architecture across the planning and budgeting systems and the lack of standardized approach to reporting performance on service delivery reduces the significance and usefulness of the information to measure the operational efficiency in service delivery.

Therefore, **the score for dimension 8.1 is assessed as a "B".**

PI-8.2: Performance achieved for service delivery

This dimension measures the extent to which the performance information is reported and published, in a format and at a level comparable to the plans previously adopted within the annual or medium-term budgets for 2016.

Each line ministry must produce a performance report. Government Regulation No. 8/2006 on Financial and Performance Reporting for Government Institutions and President Decree No. 29/2014 on Performance Accountability System for Government Institutions give a clear mandate to every line ministry (K/L) to prepare performance reports (*Laporan Kinerja Pemerintah*, or LAKIP) as part of its accountability to the government for service delivery. The LAKIP is defined as the annual performance reporting for line ministries and its format is based on the Government Performance Accountability System (*Sistem Akuntabilitas Kinerja Pemerintah*, or SAKIP), which integrates the government planning, budgeting, treasury and accounting systems. SAKIP covers not only progress on budget disbursement, through the comparison of realization to plan, but also progress on activities and output achievement. This is done by comparing actual to planned outputs (as in RKP). For example, in 2015, the government set in RKP the target for coverage of birth delivery in health service facility—under Ministry of Health's Nutrition and Mother and Child Health Program—as 75 percent. The achievement of this target was reported in the 2015 Ministry of Health's LAKIP and in RAPBN 2017, at 78 percent, or with a realization ratio of 104 percent.

Production of LAKIP report is mandatory for K/L and LAKIP have to be submitted to MENPANRB at least two months after the completion of the budget year. In 2016, MENPANRB received 77 LAKIP reports (92 percent of K/L) on 2015 execution. Each LAKIP report from a K/L includes detailed programs and activities with targeted activity indicators, financial execution against that planned, and realization against expected output/outcomes. LAKIP reports are normally published on each ministry's website in May/June annually. A summary of the achievement of outputs and key performance indicators is also available in the 2017 executive budget proposal (RAPBN) for the period 2012-16.

However, as LAKIP is largely following the planning document (RKP), the definition of outputs and outcomes is also not clearly stated. In general, program indicators are normally considered as outcomes, while activity indicators are considered as outputs. The assessment of the performance information on service delivery can be summarized as follows:

Table 23: Performance Data on Actual Service Delivery (SD)

Ministry/Agency	Budget Allocation (IDR billion)	SD > 50% (Y/N)	Program Objectives	Performance Indicators	Performance Data for Actual SD Programs		
					Outputs	Outcomes	Activities
Health	58,267	Y	Y	Y	Y	Y	NA
Public Works and Housing	105,565	Y	Y	Y	Y	Y	NA
Transportation	48,732	Y	Y	Y	Y	Y	NA
Social Affairs	18,325	Y	Y	Y	Y	Y	NA
Education and Culture	39,823	Y	Y	Y	Y	Y	NA
Agriculture	23,907	Y	Y	Y	Y	Y	NA
Research, Technology, and Higher Education	39,382	Y	Y	Y	Y	Y	NA
Religious Affairs	60,734	Y	Y	Y	Y	Y	NA
Police	72,436	N	Y	Y	Y	Y	NA
Total	394,735						
%age of compliant SD ministries by value			100%	100%	100%	100%	100%
Coverage by value of SD ministries			All SD ministries (i.e. > 90%)	All SD ministries (i.e. > 90%)	Most (>75%)	Some (>25%)	Majority (>50%)

Source: Line ministries (MoEC, MoH, MoRA, MoPW, MoT, MoS, MoRTHE, MoA) LAKIP, RAPBN 2017.

In addition, Bappenas also monitors and tracks line ministry financial and non-financial progress at program and activity level. This information is used internally by Bappenas to monitor and evaluate the implementation of the national development plan and as input for the following year's planning process and/or to formulate national development strategies and policies.

Overall, performance information for all ministries is produced annually but its reliability and usefulness to measure the actual achievement of outputs and outcomes is limited, the score for dimension 8.2 is assessed as a "B".

PI-8.3: Resources received by service delivery units

This dimension measures the availability of information on resources—including all sources of funds—actually received by service delivery units for at least two large service delivery ministries for the 2014-2016 period.

The LKPP records central government financial report at the aggregated K/L level. Funding from the central government to service delivery units, such as schools and primary health care facilities in the regions, is normally channeled through two mechanisms called the deconcentration (*Dekonsentrasi*, or *Dekon*) channel and co-administrative tasks (*Tugas Pembantuan*, or TP). Information on *Dekon* and TP funding is recorded annually in the LKPP central government financial report at the aggregated K/L level, hence information on the amount of funding allocated to service delivery units is not available. Disaggregated information at the level of frontline delivery units is available in the budget report of individual K/L. Based on MOF Decree PMK No. 177/PMK.05/2015, K/L financial reporting is part of central government accountability for budget execution, and includes the budget realization and an operational report. The LKPP is prepared every June 30 and December 31 and submitted to DG Treasury. As it is considered an input to the central government's budget realization report, the data and information on K/L budgets are restricted to internal government circulation and not published.

For the education, data and information on selected key national programs are provided on the MOEC's website. Despite the limitations on accessing information from official government budget reports, data and information on selected key national programs, such as School Operational Assistance (BOS) providing financial assistance to schools, are available on the Ministry of Education and Culture's (MOEC) website disaggregated at the level of BOS allocation by those schools that are eligible: http://bos.kemdikbud.go.id/index.php/home.

However, this does not provide information on school funding from other sources and, in many schools, BOS is only one of several government sources of school funding. BOS funding was previously allocated to schools through a deconcentrated mechanism. However, since 2016, BOS has been part of the earmarked transfer allocated to provinces through DAK *Non Fisik* (see PI-7).

The only comprehensive source of information on resources received by service delivery units (schools and primary healthcare units) can be obtained from the Indonesian Family Life Survey (IFLS). IFLS is an ongoing longitudinal survey at the individual level, representative of about 83 percent of the Indonesian population and containing over 30,000 individuals. The survey has been conducted six times since 1993, the last one being undertaken in 2014-15. It includes the budget and revenue sources for schools and Puskesmas, which are government-mandated community health clinics. The IFLS survey carried out in 2015 provides estimates for the resources received by the service delivery units of the two ministries. **The score for dimension 8.3 is therefore assessed as a "C".**

PI-8.4: Performance evaluation for service delivery

This dimension considers the extent to which the design of public services and the appropriateness, efficiency and effectiveness of those services is assessed in a systematic way through program or performance evaluations for the 2014-2016 period.

BPKP's internal audit mandate includes the evaluation of K/L performance against their respective public service delivery functions. President Decree No. 29/2014 on Performance Accountability System for Government Institutions also mandates a review and evaluation of K/L performance in carrying out service delivery functions. Articles 28 and 29 stipulate that BPKP, the National Internal Audit Institution, is responsible for reviewing the information quality and reliability of K/L performance reports before their submission to MENPANRB and require BPKP to evaluate K/L performance against their respective public service delivery functions. This evaluation report is submitted to MENPANRB, which is responsible for managing the overall evaluation process in coordination with the MOF, MOHA and Bappenas.

The objective of the evaluation is to obtain information on and assess SAKIP implementation. The evaluation process is based on MENPANRB Decree (Permenpan) No. 12/2015, which provides guidance for evaluating the implementation of the Government Performance Accountability System (SAKIP). The objective of the evaluation is to obtain information on and assess SAKIP implementation, and provide recommendations and monitor their follow-up to improve implementation.

The coverage of this performance evaluation includes the performance planning and quality of the strategic planning document and performance agreement; performance measurement; performance reporting; the effectiveness of the internal evaluation and follow up on previous findings; and performance achievement that covers outputs and outcomes reported against their benchmarks. Each component is attributed a certain weight, with performance planning, measurement and achievement receiving the highest weight.

The evaluation of K/L performance has been conducted regularly since 2010, with K/L divided into seven categories from AA to D. In total, 77 K/L (92 percent of all K/L) have been evaluated since 2015. The consolidated ratings are available on the media at https://news.detik.com/berita/3110018/ini-rapor-akuntabilitas-kinerja-77-lembaga-yang-dinilai-kemenpanrb and https://news.detik.com/berita/3570787/ini-hasil-evaluasi-kementerian-lembaga-siapa-dapat-rapor-merah for 2015 and 2016, accordingly. The evaluations are communicated to the relevant K/L for internal follow up and are expected to impact the subsequent planning process. **However, the K/L evaluation reports are not publicly available.**

Given that the results of performance evaluations in service delivery of K/L are not published, the score for dimension 8.4 is assessed as a "C".

PI-9: Public Access to Fiscal Information

Fiscal transparency depends on whether information on government fiscal plans, positions and performance is easily accessible to the public. This indicator assesses the comprehensiveness of fiscal information available to the public for the last completed fiscal year, 2016to, based on specified elements of information to which public access is considered critical.

Dimension and scoring

Score	Minimum requirements for scores
9.1. Public access to fiscal information	
A	The government makes available to the public eight elements, including all five basic elements, in accordance with the specified time frames.
B	The government makes available to the public six elements, including at least four basic elements, in accordance with the specified time frames.
C	The government makes available to the public four basic elements, in accordance with the specified time frames.
D	Performance is less than required for a C score.

Summary of Scores and Performance for PI-9: Public access to fiscal information

Indicator/Dimension (number and name)	Score	Brief Justification for Score
PI-9: Public access to fiscal information	**A**	**All five basic and three additional elements are fulfilled and information made available to the public within the specified timeframes.**

Law No. 14/ 2008 on Access to Public Information and Information Commission Decree (*Peraturan Komisi Informasi*, or Perki) No. 1/2010 defines three types of information that should be made available by government entities for public access, which are:

- Mandatory public information to be made available on a regular basis that includes information about the entities, their activities and performance, financial reports and/other specific information as stipulated under the law. The information should be provided to the public at least every semester. Information on the state budget, budget documents and government plans is covered under the mandatory definition and is made available to the public accordingly;

- Information available on a conditional basis; and
- Information that is available upon request by Indonesian citizens and legal entities only.

The government uses various communication tools in disseminating the information. These include websites that provide regular and specific fiscal information accessible to the public: the MOF's website (http://www.kemenkeu.go.id/uuapbn with press releases and advertorials for media, and public information such as the Budget in Brief and infographics; DG Budget (http://www.kemenkeu.go.id/Page/laporan-keuangan-pemerintah-pusat); and the State Audit Agency (BPK) website *(*http://www.bpk.go.id/lkpp). The latter only publishes information on audit results and audits of budget execution.

Table 24: Elements Determining Public Access to Fiscal Information

No	Elements of Information	Criteria Met	Availability and Means
1	**Annual executive budget proposal documentation**. A complete set of executive budget proposal documents (as presented by the country in PI-5) is available to the public within one week of the executive's submission of them to the legislature.	Yes	The executive budget proposal for 2017 (RUU-APBN) Annual Budget Law is available for public on August 16, 2016, which is the same day of the annual speech by President on the Budget Financial Note and the Draft Annual Budget Law of RAPBN. It was published on the MOF's website on August 18, 2016.
2	**Enacted budget.** The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	Yes	The 2017 annual budget law APBN was approved by the legislature on November 25, 2016, and published on the DG Budget website on December 6, and on the MOF website on December 7, 2016, which is within two weeks of the passage of the law.
3	**In-year budget execution reports.** The reports are routinely made available to the public within one month of their issuance, as assessed in PI-27.	Yes	Monthly updates on the aggregate budget realization *Realisasi APBN* (I-account) monthly are available on the MOF website and accessible to the public. These reports are published on DG Treasury's website one month after their issuance. See: http://www.djpbn.kemenkeu.go.id/portal/id.
4	**Annual budget execution report**. The report is made available to the public within six months of the fiscal year's end.	Yes	APBN (I-account) Realization budget for 2016 (January-December 2016) was made available on MOF website on March 30, 2017. LKPP Financial report for 2016 was published on MOF website on May 23, 2017 and is already audited. https://www.kemenkeu.go.id/Publikasi/laporan-keuangan-pemerintah-pusat-2016
5	**Audited annual financial report, incorporating or accompanied by the external auditor's report.** The reports are made available to the public within twelve months of the fiscal year's end.	Yes	The audited annual financial reports of the central government (LKPP) was published on the MOF's website as of May 23, 2017 and the BPK external audit report was issued as of May 18, 2017 and published on May 24, 2017 within six months of the fiscal year's end and available at http://www.bpk.go.id/assets/files/lkpp/2016/lkpp_2016_1495619163.pdf. In addition, the annual law on accountability of the APBN implementation (i.e., Law No. 14/2016 on the Accountability of APBN 2015 Implementation) was issued on September 28, 2016. It is the joint response from parliament and the government on findings from the BPK audit report on the LKPP and is accessible on the MOF website.

No	Elements of Information	Criteria Met	Availability and Means
Additional Elements			
6	**Pre-budget Statement.** The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the fiscal year.	Yes	The pre-budget statement is available within the Key Parameters of Fiscal Policy *Pokok-Pokok Kebijakan Fiskal* and Highlights of the Budget Proposal *Postur APBN* including main information on expenditures Revenues and debt, within the RAPBN draft budget proposal for 2017 submitted to Parliament DPR on August 16, 2016.
7	**Other external audit reports.** All non-confidential reports on central government consolidated operations are made available to the public within six months of submission.	No	The audit report on 2016 budget execution by BPK was available on BPK website on May 24, 2017. It is the consolidation of all external audits performed on central government operations during the fiscal year. The semester reports are released on BPK website twice a year (September 2016 and March 2017) at the time they are submitted to the executive and parliament. A summary of all opinions from the external audit reports on all line ministries is consolidated and published within the annual BPK audit report by the end of May. Individual line ministry's report, however, is not available in the BPK and the line ministries websites.
8	**Summary of the budget proposal**. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the non-budget experts, often referred to as a "citizens' budget," and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval.	Yes	A summary of the budget proposal is prepared in several forms: advertorial (for media), infographic, and Budget in Brief (BIB). Advertorial was available during the press conference after the President's speech on 2016 budget financial note (August 16, 2016). The infographic version was available immediately after the approval from Parliament was granted (November 25, 2016) and published in the media. BIB was made available in parallel with the submission of budget documentation (DIPA) on the first week of December 2016. These budgets documents can be accessed on the MOF website: www.anggaran.depkeu.go.id
9	**Macroeconomic forecasts. The forecasts,** as assessed in PI-14.1, are available within one week of their endorsement.	Yes	The forecast is included in the government financial note. Specifically, it is covered under *Pokok-Pokok Kebijakan Ekonomi Makro*) and *Kebijakan Fiskal* "Macro Economic Policy and Key Fiscal Policy" section (Chapter 2, section II) and is available at the same time as the submission of the draft budget proposal RAPBN.

The score for this indicator is assessed at an "A".

Pillar Three: Management of Assets and Liabilities

PI-10: Fiscal Risk Reporting

This indicator measures the extent to which fiscal risks to the national government are reported. Fiscal risks could arise from adverse macroeconomic situations, financial positions, or subnational governments or public corporations, in addition to contingent liabilities from government programs and activities. The scope of this indicator covers any fiscal risk posed by units within the public sector, including public corporations, subnational government operations and extra-budgetary activities for 2016.

Dimension and scoring

Score	Minimum requirements for scores
10.1. Monitoring of public corporations	
A	Audited annual financial statements for ***all*** public corporations are published within six months of the end of the fiscal year. A consolidated report on the financial performance of the public corporation sector is published by central government annually.
B	Audited annual financial statements are published for ***most*** public corporations within six months of the end of the fiscal year.
C	Government receives financial reports from ***most*** public corporations within nine months of the end of the fiscal year.
D	Performance is less than required for a "C" score.
10.2. Monitoring of subnational governments	
A	Audited annual financial statements for ***all*** subnational governments are published within nine months of the end of the fiscal year. A consolidated report on the financial position of ***all*** subnational governments is published at least annually.
B	Audited annual financial statements for ***most*** subnational governments are published at least annually within nine months of the end of the fiscal year.
C	Unaudited reports on the financial position and performance of the ***majority*** of subnational governments are published at least annually within nine months of the end of the fiscal year.
D	Performance is less than required for a "C" score.
10.3. Contingent liabilities and other fiscal risks	
A	A report is published by central government annually that quantifies and consolidates information on ***all*** significant contingent liabilities and other fiscal risks of central government.
B	Central government entities and agencies quantify ***most*** significant contingent liabilities in their financial reports.
C	Central government entities and agencies quantify ***some*** significant contingent liabilities in their financial reports.
D	Performance is less than required for a C score.

Summary of Scores and Performance for PI-10: Fiscal risk reporting (M2 average methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-10	**C**	**Annual reports for public corporations and subnational government are normally published after the end of the fiscal year. A significant delay can occur for subnational government annual financial reports. The fiscal risk within the Financial Note cover most contingent liabilities and other risks.**
PI-10.1: Monitoring of public corporations	B	Audited annual financial statements are published for most public corporations within six months of the end of the fiscal year.
PI-10.2: Monitoring of subnational governments	D	Audited annual financial statements are not published for *all* subnational governments within nine months of the end of FY 2015, but instead were published in early FY 2017. A consolidated report on all the financial positions of all subnational governments, however, is published annually.
PI-10.3: Contingent liabilities and other fiscal risks	C	The Financial Note to the budget covers significant contingent liabilities from government operations and programs, but the narrative included with the budget is descriptive, there is no quantification and consolidation of the fiscal risks identified.

The fiscal risk statement in the annual budget Financial Notes (see Financial Note of the 2016 revised budget, part III) **is prepared by** MOF's Fiscal Risk Unit, DG Financing and Risk Management (*Direktorat Jenderal Pengelolaan Pembiayaan dan Risiko* or DJPPR). The fiscal risk statement identifies, analyzes, monitors and reports on fiscal risks with three different categories of risk:

- Sensitivity analysis, including the sensitivity of the budget deficit to changes in the macroeconomic environment;
- Assumptions, and the sensitivity of the net contribution of taxes, subsidies, transfers and debt payments to changes in macroeconomic variables; and
- Central government debt risks, including from interest-rate and exchange-rate movements, and from refinancing requirements.

Central government contingent liabilities are wide-ranging. They include guarantees for state-owned enterprise (SOE) debt to accelerate infrastructure projects and other prioritized projects, guarantee liabilities and equity levels of state-owned financial institutions, such as Bank Indonesia (the central bank) and export financing institutions, unfunded pension obligations, pending law suits and claims on government commitments to international organizations, and the fiscal risks stemming from natural disasters.

PI-10.1: Monitoring of Public Corporations

State-owned enterprises (SOEs) and enterprises with minority government shares published their annual financial statements in the 2016 annual audited financial report (LKPP) published as of end of May 2016. However, some SOEs only submitted unaudited financial statements. The majority of autonomous government agencies (AGAs) also published their financial statements in the 2016 LKPP, but most were unaudited financial reports with the exception for BHMNs (state-owned legal entities), which only reported their equity positions. Within the MOF, DG State Assets Management has the primary responsibility for tracking and monitoring the financial situation of SOEs that are partially owned by the government. BKF follows up and updates on the fiscal risk exposure.

The central government has potential liabilities in its agencies and its SOEs. Central government autonomous government agencies (*badan*) include AGAs such as the Downstream Oil and Gas Agency (BPH Migas); non-structural institutions (*lembaga and komisi*) such as the Witness and Victim Protection Institution (LPSK) and the

Indonesian Broadcasting Commission (KPI); and public service agencies (*Badan Layanan Umum*, or BLU), such as hospitals and universities. In addition, 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 (state electricity utility), and Bank Mandiri.

In 2016, there were 123 SOEs and 25 enterprises with minority government shares. Each SOE is required to submit quarterly financial statements to the Ministry of State-owned Enterprises (MSOE) and the relevant line ministry, and produce annually audited financial statements (operating statement and balance sheet) as part of each SOE's annual report. MSOE Ministerial Decree No. 100/2002 also requires regular assessments of SOEs' financial health based on a set of eight standard financial criteria. Other ad hoc fiscal risk assessments are also carried out by both the MSOE and the MOF.

Table 25: Financial Reports of Public Corporations in LKPP 2016

Type of Public Corporations	Summary LKPP 2016	Total Expenditure	As a % of total expenditures of Public Corporations	Are Contingent liabilities included?
123 State-owned enterprises (SOEs) reported their income statements and balance sheets *(Annex 14 and 15)*.	119 were audited	153,085*	16.1%	N
	4 were unaudited	181	n.a	N
25 Enterprises with a minority government share reported their income statements and balance sheets *(Annex 17)*.	21 were audited	748,627	78.7%	N
	4 were unaudited	41,367	4.3%	N
34 Independent non-structural institutions and state foundations (LNS) reported their income statements and balance sheets *(Annex 28)*.	All were unaudited	8,210		N
Total expenditures of all public corporations		951,470	100%	N
Total audited expenditures published in LKPP	% of public corporations expenditures audited and published within 6 months of end of the fiscal year	901,712	94.8%	

Source: LKPP 2016 (financial statement of the central government).
* These figures do not include operational expenses of SOEs under the supervision of MOSOE, as this information is not shown in LKPP 2016.

The table 24 above shows that 95% public corporations reported their audited financial reports to the government on time for the information to be consolidated and published in the 2016 LKPP on May 13, 2017. The pending unaudited financial reports are submitted to the MOF for monitoring after the publication of the LKPP, as the deadline for the audited report submission is May 31, but these are not made public, since the LKPP is never revised once published. The LKPP information on SOEs does not provide the detailed expenditures, and the percentage of the government share in equity was used as a proxy for the total expenditures to identify the coverage on the financial reporting for SOEs. Based on the audited reports available online for 2016 audited financial statements, it is estimated that at least 75 percent of the SOEs reported and published their audited financial statements within six months of the end of the fiscal year, and these results were consolidated and included in the LKPP.[17]

Based on the information above, the score for Dimension 10.1 is assessed as a "B".

17 The largest SOEs with audited financial statement on their websites are Pertamina, PLN, PGN Gas, Bank Mandiri, Bank BRI, Bank BNI, Krakatau Steel, and Angkasa Pura II.

PI-10.2: Monitoring of Subnational Governments

The reporting of subnational government financial statements to the central government is supported by the regional financial management information system (SIKD). The obligation to submit financial reports to the central government is stipulated in Law No. 33/2004 on the Financial Relationship between Local and Central Government, as well as in Government Regulation (GR) No. 56/2005 on the Regional Financial Information System. Submission of the budget realization report, balance sheet and cash flow statement to the central government should take place before August 31 after the end of the fiscal year (8 months). Failure to comply with this timeline exposes a subnational government to sanctions in the form of a postponement in the disbursement of the General Allocation Fund (DAU).

According to the law, subnational government financial reports need to be audited by the State Audit Agency (BPK) and the results of these audits are reported within six months of the end of the fiscal year. Reporting compliance has improved since the enforcement of sanctions began in 2012. The first sanction was applied to 52 districts that did not submit their budget realizations from 2011 to October 2012 and 25 percent of the monthly DAU disbursement for these districts was postponed until submission of the reports. In 2013, the number of sanctioned districts fell to 28. By September 2016, 100 percent of districts and provinces submitted their budget realization reports for FY 2015, of which 25 percent had been audited by BPK. Following receipt of the reports, DG Fiscal Balance published a summary of the budget realization report for individual subnational governments on its website http: www.djpk.kemenkeu.go.id.

The information available from this budget realization summary report is shown in the box below:

Box 4: Structure of Budget Realization Summary for Individual Subnational Governments

1. Total Revenue
   - 1.1 Own Source Revenue (tax, levies, income from local assets)
   - 1.2 Transfer Revenue (DAU, DBH, DAK, and other transfers)
   - 1.3 Other Revenues (grants, emergency funds)
2. Expenditures
   - 2.1 Expenditures by Economic Classification (personnel, goods and services, capital interest, subsidies, grants, social assistance, transfers)
3. Financing
   - 3.1 Financing In (last year's surplus, proceeds from the reserve fund, assets sales, borrowing)
   - 3.2 Financing Out (loan repayments, reserve fund formation, lending, etc.).

While the submission and publication of financial reports from individual subnational governments are managed by DG Fiscal Balance, information on the consolidated financial position of all subnational governments is covered within the Government Financial Statistics (GFS) prepared by DG Treasury. The information available from the GFS includes: revenues, expenditures, operating balances (gross and net), net lending/borrowing, net acquisition of financial and non-financial assets, and balance sheet items (assets and liabilities). The GFS report consolidates the information collected by regional DG Treasury offices. As such, there may be issues with the manual consolidation, timeliness and quality of information supplied by subnational governments.

Differences in the Chart of Accounts used in subnational government reporting (following MOHA guidelines) and central government reporting require a conversion table to reconcile with government accounting standards (SAP). This process is done manually and can be problematic due to the lack of harmonization between financial management information systems used by subnational governments and the need to identify reciprocal transfer accounts between levels of government. The latest year in which GFS report is available on the MOF website (http://www.gfs.djpbn.kemenkeu.go.id/) was for 2015 as of February 2017.

The publication of the summary budget realization report is supposed to take place within nine months of the end of the fiscal year. However, the publication of the 2015 budget realization summary did not take place until early 2017, and the 2015 publication date was not available, indicating that the system for publishing subnational budget realization summary is not well established yet. The regulation applicable to the government stipulates that the deadline for reporting audited financial reports is October 15, which is about 10 months after the end of the fiscal year.

Based on the above, the score for dimension 10.2 is assessed as a "D".

However, the MOF has taken steps to accelerate the publication of the budget realization summary. For the 2016 budget, the summary of budget realization is available and had been published for 492 out of 542 subnational governments (91.7 percent) as of September 2017.

PI-10.3: Contingent Liabilities and Other Fiscal Risks

The 2016 published budget financial note, Financial Note part III, provides an overview of the exposure to all significant risks identified, with a narrative describing the fiscal impact arising from most macro and micro risk factors, and corresponding mitigation proposals. The statement includes fiscal projections and turnouts, public debt and explicit contingent liabilities, such as government guarantee programs for infrastructure investments, public-private partnerships (PPPs), national social security and pension funds, minimum capital requirements for Bank Indonesia, *Lembaga Pembiayaan Ekspor Indonesia,* (LPEIE) or the Indonesia Exim Bank, and pending litigation and implicit contingent liabilities in case of natural disasters.

Since 2008, the government has allocated budget for payments to cover government guarantee claims should they materialize. Starting in 2013, with the implementation of Ministerial Decree (PMK) No. 30/2012 on Procedures for the Management of the Guarantee Reserve Fund in the Context of Government Guarantee Budget Implementation, any unused budget allocation at the end of the third quarter can be transferred into the Government Guarantee Reserve Fund. Nonetheless, not a single guarantee claim has so far materialized. The guarantees budgeted for a total amount of IDR 651.59 billion in 2016. DG Debt Management monitors and publishes information on the Government Guarantee Reserve Fund on its website on a monthly basis.

While the Financial Note clearly indicates the most "significant" explicit contingent liabilities and other fiscal risks that have been identified, there is, however, limited quantitative information on the risks identified and the narrative does not provide a consolidated view of the overall fiscal risk incurred.

The score for Dimension 10.3 is assessed at a "C".

PI-11: Public Investment Management

Public investment is a key prerequisite for achieving and sustaining economic growth, achieving strategic policy objectives and addressing national service delivery needs. This indicator assesses the economic appraisal, selection, costing and monitoring of public investment projects by the government, with a focus on the largest and most significant ones.

This indicator covers all the systems involved in the public investment management function, whether externally funded investment projects or implemented through structured financing instruments, such as PPPs for 2016.

Dimension and scoring

Score	Minimum requirements for scores
11.1. Economic analysis of investment proposals	
A	Economic analyses are conducted, as established in national guidelines to assess ***all*** major investment projects and the results are published. These analyses are reviewed by an entity other than the sponsoring entity.
B	Economic analyses are conducted, as established in national guidelines, to assess ***most*** major investment projects, and some results are published. These analyses are reviewed by an entity other than the sponsoring entity.
C	Economic analyses are conducted to assess ***some*** major investment projects.
D	Performance is less than required for a "C" score.
11.2. Investment project selection	
A	Prior to their inclusion in the budget, ***all*** major investment projects are prioritized by a central entity on the basis of published standard criteria for project selection.
B	Prior to their inclusion in the budget, ***most*** major investment projects are prioritized by a central entity on the basis of standard criteria for project selection.
C	Prior to their inclusion in the budget, ***some*** of the major investment projects are prioritized by a central entity.
D	Performance is less than required for a "C" score.
11.3. Investment project costing	
A	Projections of the total life-cycle cost of major investment projects, including both capital and recurrent costs together with a year-by-year breakdown of the costs for at least the next three years, are included in the budget documents.
B	Projections of the total capital cost of major investment projects, together with a year-by-year breakdown of the capital costs and estimates of the recurrent costs for the next three years, are included in the budget documents.
C	Projections of the total capital cost of major investment projects, together with the capital costs for the forthcoming budget year, are included in the budget documents.
D	Performance is less than required for a "C" score.
11.4. Investment project monitoring	
A	The total cost and physical progress of major investment projects are monitored during implementation by the implementing government unit. There is a high level of compliance with the standard procedures and rules for project implementation that have been put in place. Information on the implementation of major investment projects is published in the budget documents or in other reports annually.
B	The total cost and physical progress of major investment projects are monitored by the implementing government unit. Standard procedures and rules for project implementation are in place, and information on implementation of major investment projects is published annually.
C	The total cost and physical progress of major investment projects are monitored by the implementing government unit. Information on implementation of major investment projects is prepared annually.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-11: Public investment management (M2 average methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-11	**D+**	**Major and strategic capital investment projects are subject to Bappenas' and the MOF's review and approval during the budget process, before they are implemented by line ministries. However, detailed technical, financial, economic, environmental and sensitivity analyses are not always available or completed at the time of investment project selection. If all presidential priority projects (40% of the major capital investment projects financed through the national and regional budgets APBN or APBD) are supported by KPPIP (the Committee for Acceleration of Priority Infrastructure Delivery) with sufficient technical capacity and resources at the design and implementation stages, then the remainder items in the capital investment portfolio are decentralized to line ministries with limited management capacity and control. The costing of major projects is not included in the budget documents, while the monitoring of cost and physical progress is reported outside the integrated SPAN information or done by individual line ministries.**
PI-11.1: Economic analysis of investment proposal	C	The review of the major national priority projects by KPPIP is based on sound PIM criteria but represents only 40% of the pipeline. For the rest of the projects submitted by the line ministries for the budget submission, only limited financial and project design information is required.
PI-11.2: Investment project selections	C	Apart for the 40% of the national priority projects supported by KPPIP, the project selection is not based on standard criteria for prioritization and selection.
PI-11.3: Investment project costings	D	There are no national guidelines for project costing and identification of recurrent costs. The information provided by the line ministries in the RKA-KL document for the estimates of capital investment needs is not always reliable.
PI-11.4: Investment project monitoring	D	Monitoring of cost and physical progress of major investment projects is decentralized to line ministries and the quality and capacity of this monitoring varies across ministries. Furthermore, the results of the implementation of major investment projects (funded by the state budget) by individual ministry are not published in the budget documents.

One of the government's main priorities is to close the infrastructure gap and to take debottlenecking measures to facilitate and support the processes, systems and institutions governing public investment. Accelerating capital spending for infrastructure has been supported by important reform measures**.** A major policy decision was made to cut fuel subsidies dramatically in the 2015 budget in order to provide fiscal space for additional infrastructure spending. Another major institutional decision was taken in 2014 to establish the Committee for the Acceleration of Priority Infrastructure Development (KPPIP), under the Coordinating Ministry for Economic Affairs, to support the selection and implementation of major investment infrastructure. KPPIP issued a list of priority projects (PSN) in December 2015, for the period of 2015-19 and pursuant to Presidential Regulation No. 75/2014. The projects included in the regulation are selected by KPPIP from potential National Strategic Projects through Presidential Regulation No. 3/2016 and cover all projects from the RPJMN and sources of funds (APBN, APBD, SOEs, PPPs and the private sector) in 15 investment sectors (telecommunications, road, housing, transport, mostly) with a IDR 100 billion thresholds by project (equivalent to USD 8 million each). Through this prioritization process, 30 priority projects have then been selected from the PSN pipeline of 226 projects in 2016 and KPPIP will facilitate their implementation until 2019. The KPPIP pipeline covers the PPP projects.

PI-11.1: Economic Analysis of Investment Proposals

The identification of the national investment project proposals to be funded through the government budget within the RPJMN is part of the national development consultation plan (Musrenbang) based on guidelines issued by Bappenas. The technical guidelines and procedures for the analysis of investments funded from the national and subnational budgets are the responsibility of the competent ministry (i.e., the Ministry of Public Works and Housing guidelines on risk analysis for construction projects). The process decentralized to line ministries resulted in more than 1,600 proposals with limited pre-feasibility analysis and no systematic and standard template or criteria for the selection process.

The initial screening by KPPIP covers the projects' alignment and contribution to the national strategic plan and compliance with rules and regulations. KPPIP's technical team evaluates all aspects of the project proposals following a systematic and transparent screening process, based on 16 basic, strategic and operational technical criteria for KPPIP's first selection of the 226 projects (PSN selection) and 20 additional criteria for the 30 priority projects. The complete evaluation includes the technical feasibility, financial, economic, environmental, institutional and social impacts. The prefeasibility study and economic analysis are comprehensive and aligned to private sector standards. Scrutiny of the cost-benefit to ensure that projects proposed for financing are evaluated for their social and economic value, use adequate techniques of financial and economic feasibility and sustainability, and are based on key macro, sectoral and project-specific risk factors, such as inflation, cost overrun, and changes in output and key input prices over the project life.

The list of KPPIP priority projects is endorsed by Bappenas, the MOF and the line ministries during the budget formulation trilateral meeting and included in the budget proposal. The list of the 226 projects prioritized into 30 major infrastructure priority projects from the KPPIP pipeline represents less than an estimated 40 percent[18] (from KPPIP broad figures for 2015 and 2016) of the APBN and APBD for 2015 and 2016, respectively. The list of priority projects is published by KPPIP. For reference, the main infrastructure projects by sector financed by the national budget are as follows.

Table 26: APBN-Financed PSN Investment Projects by Sector in 2016 (IDR billion)

National Strategic Projects	APBN Investment Cost (estimated*)	Observation
Gas	1,309	
Railways	69,525	
Industry and SEZ	14,000	includes APBD and private
Waste Water	150,000	includes B2B, loan, etc
Seaports	66,200	
Dams	45,323	
Airports	4,294	
Water Supply	4,502	
Housing	2,447	
Coastal Development	2,400	APBN, APBD, SOE, BUMD, Private
Border Areas	415	
Technopark (*IPTEK*)	250	
Total (Infrastructure)	360,665	

* The APBN costs are overestimated as these amounts may include other sources.

18 This number was estimated by the World Bank team based on the KPPIP data, APBN (central government) and APBD (subnational governments) in 2015 and 2016.

The remaining 60 percent of approved projects submitted by the line ministries through the mainstream budget process were not subject to the same requirements and did not benefit from the same technical support. There are no national guidelines aligned to public investment management standards, and there is no clarity regarding the pre-feasibility requirements for analysis and implementation.

Based on the available information, the score for this dimension is assessed at a "C".

PI-11.2: Investment Project Selection

The five-year medium-term development plan (RPJMN) document is the first point of reference for investment project selection. The RPJMN is a comprehensive, fixed plan reflecting the President's priorities. Based on the list of all major investment projects that are specified in the RPJMN document, each spending line ministry develops its own medium-term five-year strategic plan (Renstra) containing medium-term investment projects and line ministry annual work plan (Renja) which provides the general framework for the preparation of the line ministry's budget documentation (RKA-KL), which in turn includes the planned investment projects that have been selected to be funded from the government budget.

A consultative process to review capital spending proposals takes place between the line ministry and the sectoral Bappenas technical directorates, which screen all proposals. Following these consultative reviews, trilateral meetings between Bappenas, the MOF and the line ministry are held to review the proposals in line with the national development plans and priorities, and to assess all major investment projects within the indicative (budget) ceiling.

Prior to the submission of the proposed investment projects to parliament, a cabinet meeting takes place to discuss the government's work plan, including all major investment projects proposals. The results of the project selection process are published when the government issues the names of all projects funded by the state budget for the medium term in the five-year medium-term development plans (RPJMN) and for the annual term in the government work plan (RKP). The list of all projects that are categorized as a national priority to be funded from other sources (including PPPs) are included in a presidential regulation (Perpres No. 3/2016).

Despite this distribution of roles and responsibility and the consultation process involved, the selection of public investment projects is still unclear and does not apply open and transparent criteria. Due to the complexity of the screening of more than 1,600 project proposals, and the need to distribute investments across the sectors and regions, the final selection is ultimately driven by political considerations and budget ceiling allocations. Conversely, national priority projects (PSN) supported by KPPIP—also covering the pipeline of PPP projects—were selected based on formal criteria covering:

- **Basic Criteria:** alignment with the RPJMN and Renstra.
- **Strategic Criteria**: Strategic impact for the economy, social welfare, defense and national sovereignty (creating positive impacts on GDP, employment rate, socioeconomic conditions, and the environment), and distribution of projects among regions.
- **Operational Criteria**: The proposal must include a comprehensive feasibility study; represent an investment value of more than IDR 100 billion (USD8 million) and/or play a strategic role in regional economic development; and construction must start by the end of 2018.

Although the criteria for selection of KPPIP projects are prioritized following formal selection criteria by KPPIP, the absence of clear guidance and proper screening of the rest of the projects, remain an issue. The score for this dimension is therefore assessed as a "C".

PI-11.3: Investment Project Costing

Every year, the MOF issues a regulation establishing the guidelines for the line ministries' annual work plans and budgets (RKA-KL). The latest one was MOF Regulation No.163/2016. The standard template of the RKA-KL document requires line ministries to submit to DG Budget a detailed breakdown of expenditures for the next budget, along with estimates for the three following years. The RKA-KL discloses the projections of the project costs for the next three years for both the investment and the recurrent costs under the capital spending category of economic classification (Code No. 53).

Detailed information on KPPIP's priority projects is not published with the budget document. In addition, project costing is not always consistent with the budget allocation due to a lack of capacity in the line ministries to prepare comprehensive budget projections, such as cash-flow forecasts, financing planning and maintenance costs over the life of the investment. Financial adjustments required to adjust the financing envelope for the actual implementation costs are authorized through the in-year budget reallocation and re-appropriation processes for multi-year projects.

Accordingly, the score for dimension 11.3 is assessed as a "D".

PI-11.4: Investment Project Monitoring

Responsibility for monitoring the implementation of major investment projects is decentralized to each implementing ministry. While data on both financial and physical progress of all capital public investment projects are consolidated by the MOF's DG State Asset Management (DGSAM), the responsibility for monitoring the implementation of major investment projects is decentralized to each implementing ministry and therefore the quality of the monitoring and reporting depends largely on the capacity and systems in place.

The Ministry of Public Works and Housing (MPWH) has developed a system to monitor all infrastructure investment projects, called *Sistem Informasi Pemantauan Proyek* (SIPP). This system can monitor financial and physical progress of major investment projects.

KPPIP priority projects are monitored on a regular basis and reported to KPPIP committee members (including the MOF and Bappenas), but implementation details are not consolidated or disclosed. MOF Regulation No. 238/2015 requires that line ministries submit to the MOF a regular annual report on both financial and physical progress of all multi-year investment projects. However, neither the SIPP from the MPWH nor the MOF multi-year contract progress reports on the implementation of major investment projects are published in budget documents or any other reports. In addition, monitoring information on budget realization and cost deviation for major investment projects at the line ministry level is not available.

The score for this dimension is therefore assessed as a "D".

PI-12: Public Asset Management

This indicator assesses the management and monitoring of government assets for the fiscal year 2016, as part of the government-owned resources that should be used efficiently and effectively in line with policy objectives, and the transparency of their disposal. The effective management of assets ensures that resources owned and controlled by the government are used efficiently and effectively in the implementation of policy objectives. The time for assessment for this indicator is 2016.

Dimension and scoring

Score	Minimum requirements for scores
12.1. Financial asset monitoring	
A	The government maintains a record of its holdings in ***all*** categories of financial assets, which are recognized at fair or market value, in line with international accounting standards. Information on the performance of the portfolio of financial assets is published annually.
B	The government maintains a record of its holdings in major categories of financial assets, which are recognized at their acquisition cost or fair value. Information on the performance of the major categories of financial assets is published annually.
C	The government maintains a record of its holdings in major categories of financial assets.
D	Performance is less than required for a "C" score.
12.2. Nonfinancial asset monitoring	
A	The government maintains a register of its holdings of fixed assets, land, and (where relevant) subsoil assets, including information on their usage and age, which is published at least annually.
B	The government maintains a register of its holdings of fixed assets, including information on their usage and age, which is published. A register of land, and (where relevant) subsoil assets is also maintained.
C	The government maintains a register of its holdings of fixed assets, and collects partial information on their usage and age.
D	Performance is less than required for a "C" score.
12.3. Transparency of asset disposal	
A	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established, including information to be submitted to the legislature for information or approval. Information on transfers and disposal is included in budget documents, financial reports, or other reports.
B	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Information on transfers and disposals is included in budget documents, financial reports, or other reports.
C	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Partial information on transfers and disposals is included in budget documents, financial reports, or other reports.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-12: Public asset management (M2 average methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-12	**B**	**BPK reports include substantial observations on the weaknesses in the management and monitoring of (financial and non-financial) public assets at the central government level. Fixed asset registers are in place but reports are not published annually. Rules and procedures for transparent transfer and disposal of assets are established but not specifically reported to parliament.**

Indicator/Dimension (number and name)	Score	Brief Justification for Score
PI-12.1: Financial asset monitoring	A	The government annual financial report (LKPP) records all categories of financial assets for both categories of the short- and long-term (permanent) investments and publishes all government financial assets' portfolio performance invested in other separated entities. such as the state-owned enterprises (SOEs), other state companies non-SOE, foundations, and state institutions (i.e., central bank, deposit guarantee agency). Different valuation methods are applied to different financial assets according to their nature and type, in line with the international accounting standards.
PI-12.2: Non-financial asset monitoring	C	The government maintains a register of all fixed assets, including information on their usage and age, but there is no regular process to document and update the registration of subsoil assets, which is relevant for a natural resources rich country such as Indonesia, which receives a large amount of tax and non-tax revenue from oil, gas and other minerals mining operations.
PI-12.3: Transparency of asset disposal	C	The Government Regulations No. 27/2014 and No. 1/2008 regulate the approval procedures for the transfer or disposal of financial and non-financial assets. Information submitted to parliament through the financial note document for approval and financial reports (LKPP) for information is not detailed.

PI-12.1: Financial Asset Monitoring

This dimension assesses the nature of financial asset monitoring, which is critical in identifying and effectively managing the key financial exposure and risks to overall fiscal management. DG State Asset Management (*Direktorat Jenderal Kekayaan Negara,* or DGSAM) is the MOF unit responsible for managing both financial and non-financial government assets, with four directorates responsible for managing state assets (Directorate of State Assets; Directorate of State Asset Management and Information System; Directorate of Separated State Assets; and Directorate of State Claims and Other State Assets), and two directorates responsible for Auction and Valuation. The financial assets directly managed by DGSAM cover state claims on (receivables of the government) and state equity in (investments held by the government) SOEs.

A comprehensive record of central government holdings is maintained for all categories of financial assets owned by the government for both short- and long-term (permanent) investments and reported within the government's annual financial report (LKPP). Different methods are applied to the valuation of financial assets. For short-term financial assets with a holding period of 3-12 months, these are valued at fair (realization) value. Longer-term investments in financial assets can be valued differently, either by the original acquisition cost, an auditor's valuation review, or net realized value.

The LKPP also records all government financial assets invested in other separated entities, such as SOEs, other state companies, foundations and state institutions (i.e., the central bank, the deposit guarantee agency). Financial assets in the form of other government equity participation in separated asset entities are mostly recognized at book value and periodically revalued, while only a few SOEs are listed and can be valued at market price.

The valuation of financial assets is in line with GFSM international accounting standards and performance of the portfolio is disclosed on an annual basis in the LKPP report. **Therefore, the score for this dimension is assessed as an "A".**

PI-12.2: Non-financial asset monitoring

Management of non-financial assets has improved with the issuance of MOF Regulation No. 27/2014 on the Management of State/Regional Assets. This government regulation clearly states: (i) the definition of state assets; (ii) the managers and users of state assets; (iii) planning and budgeting of the financial needs of state assets; (iv) rules for use, including asset rentals, borrowing, join operations, building, operating, transferring, and options for partnership; (v) security and maintenance of state assets; (vi) transfer of the ownership, including selling, swaps, or grants; (vii) disposal, liquidation and write-offs; and (viii) management, supervision, and control of state assets.

DGSAM has developed an application called SIMAK-BMN, or *Sistem Manajemen Akuntansi Keuangan Barang Milik Negara* (State-owned Asset Financial Accounting Management System), to record and register state assets held by line ministries. The system is designed to produce reliable and accountable reports of state assets (including inventories) for financial and monitoring purposes, and for government balance sheets. The system records all information about the assets, including their age, usage, condition, maintenance, value, supervision and control data.

Considering the importance of natural resources as a major source of revenue in Indonesia, the government has also established a registration of non-produced assets linked to the management of subsoil assets. Subsoil assets are defined as the proven reserves of mineral deposits located on or below the earth's surface that are economically exploitable, given current technology and relative prices.

The Ministry of Energy and Mineral Resources maintains the registration of all identified government subsoil assets. As mandated by Law No. 41/2009, DG Mining and Coal in the Ministry of Energy and Mineral Resources maintains the registration of all identified government subsoil assets, including oil and gas and other mineral resources (coal, gold, copper, etc.) mining operations and produces a balance sheet of all natural resources and mineral reserves in the country. In addition, DG Oil and Gas regularly prepares a report on potential reserves, proven reserves, and production of oil and gas in Indonesia. The Central Bureau of Statistic (BPS) has also developed Sisnerling, or *Sistem Neraca Lingkungan dan Ekonomi Terpadu* (the system of integrated economy and environment accounts), to capture information on Indonesia's potential natural resources reserves.

Unfortunately, not all of the available data on subsoil assets are updated, consolidated or published regularly. Furthermore, other non-produced natural resources assets such as land, water and uncultivated forests are not listed. Although standards such as IPSAS would recommend not to record these assets as a matter of prudence, a registry or inventory of these assets is highly relevant for Indonesia.

Based on the assessment**, the score for this dimension is assessed as a "C".**

PI-12.3: Transparency of asset disposal

Two government regulations regulate the disposal of state assets. Article 54 of Government Regulation No. 27/2014 regulates the procedures for the transfer or disposal of non-financial assets, where the transfer of land/buildings and fixed assets other than land/buildings with a value above IDR 100 billion must be approved by parliament, or by the President if the value is above IDR 10 billion. Article 24 of Government Regulation No. 1/2008 regulates the rules for divesting government financial assets (investments). Aggregate information on transfers and the disposal of both financial and non-financial assets is included in the financial report (LKPP) for reporting to parliament on realized asset transfers.

DGSAM is in charge of collecting data on all capital investment budgets executed by line ministries, both for completed and work-in-progress projects. Every semester and annually, all spending units are required to submit "*catatan atas laporan barang milik negara*" or notes for detailed state fixed assets held by spending units compiled by DGSAM as inputs for the fixed assets data in the consolidated government balance sheet. However, the consolidated information is not comprehensive on public assets records with purchase cost, depreciation, transfers, and disposals.

The score for this dimension is assessed as a "C".

PI-13: Debt Management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records and controls are in place to ensure efficient and effective arrangements. The assessment looks at 2016 for approval of debt guarantees and 2017 for recording and reporting of debt as well as the debt management strategy.

Dimension and scoring

Score	Minimum requirements for scores
13.1. Recording and reporting of debt and guarantees	
A	Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least quarterly.
B	Domestic and foreign debt and guaranteed debt records are complete, accurate, and updated quarterly. ***Most*** information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least annually.
C	Domestic and foreign debt and guaranteed debt records are updated annually. Reconciliations are performed annually. Areas where reconciliation requires additional information to be complete are acknowledged as part of documentation of records.
D	Performance is less than required for a "C" score.
13.2. Approval of debt and guarantees	
A	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or parliament.
B	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to entities specifically included in the legislation. Documented policies and procedures provide guidance for undertaking borrowing other debt-related transactions and issuing loan guarantees to one or several entities. These transactions are reported to and monitored by a single responsible entity. Annual borrowing must be approved by the government or parliament.
C	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to entities specifically included in the legislation. Documented policies and procedures provide guidance for undertaking borrowing and other debt-related transactions and issuing loan guarantees to one or several entities. These transactions are reported to and monitored by a single responsible entity.
D	Performance is less than required for a "C" score.
13.3. Debt management strategy	
A	A current medium-term debt management strategy covering existing and projected government debt, with a horizon of at least three years, is publicly reported. The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks. Annual reporting against debt management objectives is provided to the legislature. The government's annual plan for borrowing is consistent with the approved strategy.
B	A current medium-term debt management strategy, covering existing and projected government debt, with a horizon of at least three years, is publicly reported. The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks.

C	A current medium-term debt management strategy covering existing and projected government debt is publicly available. The strategy indicates at least the preferred evolution of risk indicators such as interest rates and refinancing, and foreign currency risks.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-13: Debt management (M2 average methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-13	**B+**	**DG Budget Financing and Risk Management in the MOF is responsible for the management and publication of the data on domestic and foreign debt portfolios and monthly updates are available. Approval of debt ceilings and guarantees is established by law and a medium-term debt management strategy is published, but not updated annually.**
PI-13.1: Recording and Reporting of Debt and Guarantees	A	Domestic and foreign debt and guaranteed debt records are complete, accurate, updated and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock and operations are produced at least quarterly.
PI-13.2: Approval of Debt and Guarantees	A	Primary legislation grants authorization to borrow, issue new debt and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government and parliament.
PI-13.3: Debt Management Strategy	C	A medium-term debt management strategy covering existing debt with a horizon of 2014-17 has been submitted to parliament and publicly reported. The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks. Annual reporting against debt management objectives is provided to parliament. The annual borrowing plan is consistent with the approved strategy. However, the MTMS is not updated on a rolling basis and forecasts for 2018 are not publicly available.

The definition of debt management. Debt management—which includes guidance on borrowing, issuing new debt and undertaking debt-related transaction, issuing loan guarantees, and monitoring debt management transactions by a single debt management entity.[19]

The MOF's DG Budget Financing and Risk Management (DGBFRM/DJPPR) is responsible for managing all public domestic and foreign debt. It was restructured in 2015 as part of the broader MOF reorganization and integrated the Fiscal Risks Unit, which was initially part of the Fiscal Policy Agency.

19 Debt management is defined by the following regulatory framework: (i) Law No. 24/2002 – Government bonds; (ii) Law No. 17/2003 – State finance; (iii) Law No. 1/2004 – State budget; (iv) Law No. 15/2004 – Management assessment and responsibility of state finance; (v) Law No. 19/2008 – Government Sharia bonds; (vi) Government Regulation No. 23/2003 – Limits the state and regional budget deficits, and limits the amount that can be borrowed by the central government and regional governments; (vii) Government Regulation No. 76/2005 – Procedures of administration, accountability and publication for government debt management; (viii) Government Regulation No. 54/2008 – procurement and government foreign debt guarantees; (ix) Government Regulation No. 10/2011 – guidelines for foreign debt and grants; and (x) Government Regulation No. 56/2011 – Government sharia bonds for project financing.

PI-13.1: Recording and Reporting of Debt and Guarantees

Both domestic and foreign public debt have a strong and reliable recording system, covering debt service, stock and new debt with monthly update and reconciliation. Indonesia's published external data were rated level 1 (on a scale of 1-3) in the International Debt Statistics 2017 publication, indicating very reliable reports Information on the public debt and compliance with Debt Reporting System guidelines. is provided on the MOF website at (http://www.djppr.kemenkeu.go.id/site/home).

Both external loans and debt securities are jointly maintained, reported and published by the MOF's Debt Management Unit (DMO) of DGBFRM and Bank Indonesia (BI). The MOF uses the Debt Management and Financial Analysis System (DMFAS), which records both external and domestic debt, while BI uses the External Debt Information System (EDIS) for central government external debt, the central bank and the private sector.

- Indonesia External Debt Statistics - http://www.djppr.kemenkeu.go.id/page/load/33 and http://www.bi.go.id/en/statistik/utang-luar-negeri/Default.aspx, a joint publication with data on government, central bank and private sector external debt
- Indonesia Quarterly Public Sector Debt Statistics - http://www.djppr.kemenkeu.go.id/page/load/785 and http://www.bi.go.id/en/statistik/suspi/Default.aspx, a MOF publication on government external and domestic debt, central bank debt and other public sector debt (SOEs).
- Indonesia Central Government Debt Profile -http://www.djppr.kemenkeu.go.id/page/load/23, published monthly by MOF with the position of central government debt (covering both external and domestic debt), and government guarantees.

Based on the information on recording and reporting debt and guarantees available at the time of this assessment, the score for this dimension is assessed as an "A".

PI-13.2: Approval of Debt and Guarantees

This dimension assesses the arrangements in place for the approval and control of the government's contracting of loans and the issuance of guarantees. The MOF is the sole entity authorized to borrow, issue new debt, and issue loan guarantees on behalf of the central government, based on annual parliamentary approval. The annual Law on State Budget outlines the new debt or loans that can be issued to finance the fiscal deficit to cover short-term cash shortfalls, and manage the sovereign debt portfolio. The Fiscal and Planning Agency (BKF), monetary authorities and Indonesia's Stock Exchange for secondary market supervision are also involved. Moreover, for transparency and accountability, the government regularly publishes debt management data and information on the stock and composition of its debt and financial assets portfolio, including their currencies, maturities and interest rate structures.

The score for this dimension is assessed as an "A".

PI-13.3: Debt Management Strategy

This dimension assesses if the government prepares a Debt Management Strategy providing cost/risk trade-off analysis with a medium-term perspective for the existing portfolio. The MOF produces a Medium-Term Debt Strategy (MTDS) to manage the financing needs to cover the state budget deficit through debt at minimal cost, within a controlled risk framework and creating a liquid market of government securities. The MTDS covers a horizon of 3 to 4 years and the policies are reviewed annually, particularly to accommodate changes related to new financing needs of the state budget and adjustments to macroeconomic conditions. The MTDS is in line with the government's efforts to achieve fiscal sustainability. MTDS reports are available on the MOF's website: (http://www.djppr.kemenkeu.go.id/page/load/40).

Under its strategic framework for debt management, the MOF periodically prepares three documents: (i) a Medium-Term Debt Strategy (MTDS) established through a Ministry of Finance Decree and covering a 4-year period (currently updated every 3 years); (ii) an Annual Borrowing Plan (ABP) or Debt Financing Strategy issued as a Director General of Budget Financing and Risk Management Decree as part of the annual budget process; and (iii) an annual Financial Note to the Budget that updates aspects of the MTDS annually. The MTDS 2014-17 describes the composition of debt issuance by currency, tenor, and interest rates, and sets several targets of debt portfolio indicators, which are grouped into debt risk and fiscal sustainability risk indicators for the period. The MTDS 2014-17 sets the optimum composition of debt issuance/disbursement composed of 25 percent foreign currency and 75 percent domestic currency of total new gross debt. The annual Debt Financing Strategy document is published with the fiscal notes and presents the updated debt financing plan based on the budget. The government's annual plan for borrowing is consistent with the approved strategy in the MDTS. The annual borrowing plan serves as an operational guideline for debt management that comprises of new debt issuance plans, liability management, such as debt swaps and buy-back schemes, and refinancing. The reporting of ABP's risk indicators against its objectives is provided to parliament during budget and revised budget discussion. All of these documents are publicly available: (i) and (ii) at http://www.djppr.kemenkeu.go.id/page/load/40 and (iii) at http://www.anggaran.kemenkeu.go.id/dja/edef-nk-apbn.asp

However, in 2016, the State Audit Agency (BPK) produced recommendations to improve reporting on fiscal risks in the Financial Note.

Furthermore, the update of the MDTS strategy is not on a rolling basis, and if there are internal documents presenting evidence that the MOF is carrying out an exercise to update the MDTS on an annual basis, it has not published it on its website for 2017. The Financial Notes to the Budget for 2015 and 2016 presented high-level policy direction for financing (without specific target ranges indicators). The government is currently in the process of updating the MDTS for the next 2018-21 period, which is expected to be issued once the 2018 budget is approved.

Since the debt strategy was not sufficiently current for the years under assessment, with the updates in the Financial Notes having some goals but not all the relevant targets in terms of debt composition, hence the score for this dimension is assessed as a "C".

To respond to the BPK recommendation, the 2017 and 2018 Financial Notes presented targeted ranges for debt indicators such as interest rates, financing composition, and foreign currency risks. For example, the 2017 Financial Note shows a borrowing composition for period 2016-19, with financial risk targets, such as domestic bonds issuance in the range of 75 to 80 percent of total bonds, with 41 percent in tenors of 3 to 7 years.

Pillar Four: Policy-based Fiscal Strategy and Budgeting

PI-14: Macroeconomic and Fiscal Forecasting

This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. A credible fiscal strategy should support the achievement of the government's fiscal policy objectives. The assessment looks at the period 2014-16.

Dimension and scoring

Score	Minimum requirements for scores
14.1. Macroeconomic forecasts	
A	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to parliament. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years. The projections have been reviewed by an entity other than the preparing entity.
B	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to parliament. These forecasts cover the budget year and the two following fiscal years.
C	The government prepares forecasts of key macroeconomic indicators for the budget year and the two following fiscal years.
D	Performance is less than required for a "C" score.
14.2. Fiscal forecasts	
A	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions and an explanation of the main differences from the forecasts made in the previous year's budget, are included in budget documentation submitted to parliament.
B	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in budget documentation submitted to parliament.
C	The government prepares forecasts of revenue, expenditure and the budget balance for the budget year and the two following fiscal years.
D	Performance is less than required for a "C" score.
14.3. Macro-fiscal sensitivity analysis	
A	The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic assumptions, and these scenarios are published, together with its central forecast.
B	The government prepares, for internal use, a range of fiscal forecast scenarios based on alternative macroeconomic assumptions. The budget documents include discussion of forecast sensitivities.
C	The macro-fiscal forecasts prepared by the government include a qualitative assessment of the impact of alternative macroeconomic assumptions.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-14: Macroeconomic and fiscal forecasting (M2 average methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-14	**B+**	**Macroeconomic projections are prepared for three years, included in the budget documentation submitted to parliament and published. Fiscal forecasts are published and alternative scenarios are presented and discussed internally.**
PI-14.1: Macroeconomic forecasts	A	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to parliament. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years. The projections have been reviewed by an entity other than the preparing entity
PI-14.2: Fiscal forecasts	B	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in budget documentation submitted to parliament.
PI-14.3: Macro-fiscal sensitivity analysis	B	The government presents within the financial notes (LKPP) a range of fiscal forecast scenarios based on alternative macroeconomic assumptions. The budget documents include discussion on forecast sensitivity to different macroeconomic criteria but falls short of presenting scenarios (overall government revenues over expenditures, economic growth potential and risks) in the short, medium and long term, and the impact of the macro-fiscal context on the main sectors or expenditure categories.

PI-14.1: Macroeconomic Forecasts

The macroeconomic forecasts produced by the MOF result from a systematic, iterative and bottom-up approach. They are subjected to a robust vetting process that includes meetings with four key stakeholders (Bappenas, BI, the Ministry of Energy and Mineral Resources, and the Oil and Gas Regulator Agency, SKK Migas) before being presented to parliament as the assumptions for the budget. As mentioned under PI-5, Financial Note of FY 2017 budget provide comprehensive underlying macroeconomic assumptions and a detailed budget sensitivity analysis of the aggregate expenditures, budget deficit to key macroeconomic variables with estimates of GDP growth, inflation, interest rates and exchange rate. They include three-year medium-term projections until 2020 and forecast are updated and published three times a year.

The score for this dimension is an "A".

PI-14.2: Fiscal Forecasts

The MOF process starts with a fiscal capacity assessment for the medium term as the basis for the formulation of the budget resource envelope (fiscal package) and subsequent indicative ceilings at ministry- and program-level for the fiscal year and three following years. The determination of the resource envelope consists of three key processes: preparation of the Medium-Term Macroeconomic Framework (MTMF), preparation of the Medium-Term Fiscal Policy Framework (MTFF) and preparation of the Medium-Term Budget Framework (MTBF). The MTBF as presented in the financial note is not disaggregated by function, only at the level of the main headers (expenditures, revenues, surplus/deficit, and financing), but the framework is detailed in subsequent planning and budget documents, including revenue projections by type of revenue (tax and non-tax) with details on underlying assumptions on rates, coverage and growth and related policy measures, for example to achieve targeted revenues growth for for Income tax and assumptions on oil and gas revenues (oil price, lifting estimates, etc.) . Indicative ceilings are based on the MTBF, based on last year's budget realization data, and 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.

The government has gradually developed a debt sustainability analysis. Following the issuance of PMK No. 447/KMK.06/2005 on Government Debt Management Strategy, the government gradually developed a debt sustainability analysis (DSA), but it was not fully implemented until 2008. The DSA is integrated in Chapters 2 to 5 of the debt management strategy report and covers both domestic and foreign debt. The DSA is subject to review every year and includes: (i) analysis of achievements of debt management in previous four-year period; (ii) analysis of debt capacity and financing budget needs in 2014-17; and (iii) analysis of the characteristics of lenders, investors, line ministries, and an analysis of portfolio targets.

As part of the KPJM (*Kerangka Pengeluaran Jangka Menengah*, equivalent to Medium-Term Expenditure Framework, or MTEF) implementation, the MOF prepares detailed fiscal forecasts for the budget year and the three following fiscal years presented in the Financial Note. However, the fiscal forecasts do not include explanations of the main differences from the forecasts made in the previous year's budget.

Based on the assessment, the score for this dimension is a "B".

PI-14.3: Macro-fiscal Sensitivity Analysis

The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic assumptions. As noted previously in PI-10, the MOF prepares a comprehensive macro-fiscal sensitivity analysis calculating the impact of changes in macroeconomic assumptions, such as GDP growth, the oil price, exchange-rate and interest-rate movements on revenues, expenditures, the budget deficit, debt sustainability and financing on the budget categories. The detailed sensitivity data and government forecast are available but the range of scenarios is not published in the financial note as part of the government's risk management strategy.

Dimension qualifies for a "B" score.

PI-15: Fiscal Strategy

This indicator provides an analysis of the government's capacity to develop and implement a clear fiscal strategy, including specific quantitative and qualitative fiscal targets, and constraints for the formulation of budget policy decisions. A fiscal strategy should provide the framework to develop and assess the fiscal impact of the government's revenue and expenditure policy proposals.

Dimension and scoring

Score	Minimum requirements for scores
15.1. Fiscal impact of policy proposals	
A	The government prepares estimates of the fiscal impact of ***all*** proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years, which are submitted to parliament.
B	The government prepares estimates of the fiscal impact of ***all*** proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years.
C	The government prepares estimates of the fiscal impact of ***all*** proposed changes in revenue and expenditure policy for the budget year.
D	Performance is less than required for a "C" score.

	15.2. Fiscal strategy adoption
A	The government has adopted, submitted to the legislature, and published a current fiscal strategy that includes explicit time-based quantitative fiscal goals and targets, together with qualitative objectives for at least the budget year and the following two fiscal years.
B	The government has adopted and submitted to parliament a current fiscal strategy that includes quantitative or qualitative fiscal objectives for at least the budget year and the following two fiscal years.
C	The government has prepared for its internal use a current fiscal strategy that includes qualitative objectives for fiscal policy.
D	Performance is less than required for a "C" score.

	15.3. Reporting on fiscal outcomes
A	The government has submitted to parliament and published with the annual budget a report that describes progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set. The report also sets out actions planned by the government to address any deviations, as prescribed in legislation.
B	The government has submitted to parliament along with the annual budget a report that describes progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set.
C	The government prepares an internal report on the progress made against its fiscal strategy. Such a report has been prepared for at least the last completed fiscal year.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-15: Fiscal strategy (M2 average methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-15	**B+**	**The government's fiscal strategy with a three-year horizon is included in the Financial Notes to the budget and published but does not present systematically the fiscal impact prepared internally by MOF on all changes in revenue and expenditure policy . Deviations on fiscal quantitative targets are reported in the annual budget report.**
PI-15.1: Fiscal impact of policy proposals	C	MOF prepares estimates of fiscal impact of all adjustments to revenue and expenditure policy proposed in the budget but the budget documentation presents only some of the proposed changes in revenue and expenditure policy for the budget year.
PI-15.2: Fiscal Strategy Adoption	A	The government has adopted, submitted to parliament and published a current fiscal strategy that includes explicit time-based quantitative fiscal goals and targets, together with qualitative objectives for at least the budget year and the following two fiscal years
PI-15.3: Reporting on fiscal outcomes	A	The government has submitted to parliament, and published with the annual budget, a report that describes progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set. The report also sets out actions planned by the government to address any deviations, as prescribed by law.

PI-15.1: Fiscal Impact of Policy Proposals

This dimension assesses the capacity of the government to estimate the fiscal impact of revenue and expenditure policy proposals developed during budget preparation. The assessment of the fiscal implications of policy changes is critical to ensure that policies are affordable and sustainable. A failure to accurately estimate the fiscal implication of policies may result in a shortfall in revenues or higher expenditures, leading to unintended deficits and increased debt, undermining the ability of the government to deliver services to its citizens.

Between 2014 and 2015, the government proposed and introduced major new policies with a fiscal impact in the short and medium terms. These included a major fuel subsidy reform in 2015 following ad-hoc subsidy adjustments in 2013 and 2014; a proposal to adjust income tax rate and to adjust non-taxable income tax threshold; and a proposal to adjust import tariffs for consumption and non-consumption goods in 2016.

The Fiscal Policy Agency prepares estimates of fiscal impact of revenue and expenditure policy proposals internally through consultation with relevant stakeholders. The internal analysis in general has the following structure: rationale/background of the policy, discussion/policy options, and recommendation for senior management consideration. In some cases, the analysis also includes economic and social impact using computational general equilibrium (CGE) model.

However, the estimates of fiscal impacts focused primarily on short term impact (one year), and were not presented in the main budget documents. It is important to assess the fiscal impact of policy changes with the medium-term perspective to ensure that policy changes are affordable and sustainable in the medium term. The two main budget documents—the Fiscal Policy Strategy Paper, *Pokok-Pokok Kebijakan Fiskal* and the Financial Note, *Nota Keuangan*—only present qualitative assessment of the policy proposals and do not present a quantification of fiscal impact analysis of budget policy proposals. In most cases, the government carries out the fiscal impact analysis internally, and presents it to parliament

The score for this dimension is therefore assessed as a "C".

PI-15.2: Fiscal Strategy Adoption

This dimension assesses the extent to which the government prepares a fiscal strategy that sets out fiscal objectives for at least the budget year and the two following fiscal years with numerical objectives, targets or policy parameters (such as the level of fiscal balance), aggregate central government expenditures or revenues, and changes in the stock of financial assets and liabilities.

The Financial Note prepared by the MOF Fiscal Policy Agency (BKF) presents the government's fiscal strategy, including the three-year fiscal position, as part of the Medium-Term Expenditure Framework (MTEF) implementation and as mandated by State Finance Law (UU No. 17/2003). The 2015 Budget Financial Note submitted to parliament includes indicative measures and quantitative targets of the fiscal objectives, and the key variables such as revenues, expenditures, the deficit, and debt, such as targeting a positive primary balance by 2018 and declining debt-to-GDP ratio to below 22 percent of GDP by 2018 (see 2015 Budget Financial Note, Part II, Chapter 3, 4, 6).

Based on this information, rating for Dimension 15.2 is assessed as an "A".

PI-15.3: Reporting on Fiscal Outcomes

This dimension assesses the extent to which the government makes available—as part of the annual budget documentation submitted to parliament—an assessment of its achievements against its stated fiscal objectives and targets. The fiscal outcomes are reported through various budget documents including the audited government financial reports, LKPP, the mid-year budget implementation report, and budget financial note report, providing a substantive analysis and discussion on progress achieved against the budget estimates, including updates on programs and activities for revenues, expenditures, financing and debt. These reports examine the year-to-date performance relative to macroeconomic and fiscal objective targets initially adopted and are published on the MOF's website and formally submitted to parliament. Scenarios and possible actions recommended to address the deviations are also included. For example, the 2016 Budget Law includes a provision on policy measures to cover expenditure needs should there is revenue shortfall including use of accumulated unspent balance (SAL), government bonds issuance, or expenditure adjustment in 2016.

This qualifies dimension 15.3 for an "A" rating.

PI-16: Medium-term Perspective in Expenditure Budgeting

This indicator measures the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings and aligned to strategic plans. Expenditure policy decisions have multi-year implications and should be aligned with the availability of resources in the medium-term perspective, and be consistent with the existing fiscal policies and strategy.

Dimension and scoring

Score	Minimum requirements for scores
16.1. Medium-term expenditure estimates	
A	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative, economic, and program (or functional) classification.
B	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative and economic classification.
C	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative or economic classification.
D	Performance is less than required for a "C" score.
16.2. Medium-term expenditure ceilings	
A	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved by government before the first budget circular is issued.
B	Aggregate expenditure ceilings for the budget year and the two following fiscal years and ministry-level ceilings for the budget year are approved by government before the first budget circular is issued.
C	Aggregate expenditure ceilings for the budget year and the two following fiscal years are approved by the government before the first budget circular is issued.
D	Performance is less than required for a "C" score.
16.3. Alignment of strategic plans and medium-term budgets	
A	Medium-term strategic plans are prepared and costed for ***most*** ministries. ***Most*** expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans.
B	Medium-term strategic plans are prepared for the ***majority*** of ministries, and include cost information. The ***majority*** of expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans.
C	Medium-term strategic plans are prepared for ***some*** ministries. ***Some*** expenditure policy proposals in the annual budget estimates align with the strategic plans.
D	Performance is less than required for a "C" score.

Score	Minimum requirements for scores
16.4. Consistency of budgets with previous year's estimates	
A	The budget documents provide an explanation of ***all*** changes to expenditure estimates between the last medium-term budget and the current medium-term budget at the ministry level.
B	The budget documents provide an explanation of ***most*** changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the ministry level.
C	The budget documents provide an explanation of ***some*** of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-16: Medium-term perspective in expenditure budgeting (M2)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-16	**C+**	**Expenditure budgeting includes medium-term expenditure ceilings and uses the MTEF template as a strategic reference for budget preparation. However, annual and medium-term budget diverge from the sector strategic plans prepared by the line ministries due to changing policies and priorities.**
PI-16.1: Medium-term expenditure estimates	C	The standard MOF template for preparing the annual budget plan (RKA-KL) requires a line ministry to submit proposed expenditures for the next year and a projected budget for the three following fiscal years. The allocation published with the budget is available by administrative unit but not at the economic classification level.
PI-16.2: Medium-term expenditure ceilings	A	The first budget circular for indicative expenditure ceiling is jointly issued by Bappenas and the MOF, and provides ministry-level expenditure ceilings for the next and three following fiscal years.
PI-16.3: Alignment of strategic plans and medium-term budgets	C	Sector strategies and ministerial strategic plans (Renstra), complete with costing, are defined for all line ministries. Renstra provides a five-year horizon at program, activity and project level with targets and funding requirements, translated into an annual Renja with a direct link to the APBN. However, Renstra plans do not constitute a reliable basis for the sector strategy costing required for a proper MTEF and the alignment with the medium-term budgets is partial.
PI-16.4: Consistency of budgets with previous year's estimates	C	The budget documentation of FY 2017 did not provide any explanation of changes to expenditure estimates between the last medium-term budget and the current medium-term budget at the ministry level. The financial note provides an explanation of some changes at the aggregate level only. (Financial Note of 2017 Book 2 Chapter 4 Table II.4.8.) The MOF issued Regulation No. 163/2016 requiring each line ministry to use the first forward estimate of last year's budget as the baseline for calculating estimates for the following budget but it will only be applicable for the 2018 budget.

PI-16.1: Medium-term Expenditure Estimates

The 2003 State Finance Law requires the budget proposal to be based on the government's medium-term planning document and significant progress has been made in the formulation of the Medium-Term

Expenditure Frameworks (MTEFs) introduced since 2011. The circular letter on Planning and Budgeting Reforms guidelines, issued jointly by Bappenas and MOF June 2009 requires the line ministry to submit its detailed budget expenditure for the proposed year and three following fiscal years as the forward estimates. The 2011 budget was the first year of implementation of a detailed MTEF process and regulations have been put in place to incorporate medium-term budget forecasts and include the presentation of new initiatives during the budget preparation process (excluding local government grants and subsidies, which are outside the scope of the MTEF). The Minister of Finance Regulation No. 196/2015 and No. 231/2015 require ministries and all other spending units to consolidate their medium-term projections as part of their budget submissions. MTEF calculations are now consolidated by line ministry and cascaded down from the program level to the activity level by the spending units in the proposed budget.

In an effort to strengthen performance-based budgeting implementation, and improve the quality of the information and the compliance of expenditure projections, the MOF has also introduced a system for monitoring performance indicators called ADIK (*Arsitektur Dasar Informasi Kinerja* or Basic Architecture on Performance Information) managed by DG Budget. The ADIK structure applies the logic model to every level of the organization and was integrated into the budgeting process and architecture based on the RKA-KL in 2016. However, the calculation and consistency of forward estimates remain challenging. This is due to the absence of a clear and unified costing methodology and adequate resources within line ministries to design and cost comprehensive sector strategies and the limited capacity within MOF to review and consolidate data from over 24,000 spending units.

MOF Regulation No. 163/2016 on the preparation of the line ministry's work plan and budget (RKA-KL) has continued the implementation of the MTEF with some flexibility within the expenditure ceilings. It requires the line ministries to submit their annual budget proposals using a standard template covering the detailed budget expenditure for the budget year and three following fiscal years, but at the level of the administrative unit (Echelon I and spending unit) only, without any detailed forward estimates by economic and program classifications for the three following years.

The actual budget presents annual and forward estimates for the three following years by administrative classification, hence score for this dimension is assessed as a "C".

PI-16.2: Medium-term Expenditure Ceilings

The budget formulation process follows a set of strict fiscal rules ensuring fiscal sustainability for both central and subnational government budgets. The total annual budget deficit is set at a maximum 3 percent of GDP and the outstanding (foreign and domestic) debt at not more than 60 percent of GDP (State Finance Law No. 17/2003). Furthermore, the expenditure ceilings process involves mandatory spending through earmarked budget allocations for expenditures on: (i) education with a minimum of 20 percent of annual expenditure budget (Constitution 1945 Article 31 (4)); (ii) the transfer of the General Allocation Fund (DAU) or block grant to subnational governments with a minimum of 26 percent of net government revenue (Law No. 33/2004); (iii) health with minimum of 5 percent of annual expenditure budget (Law No. 36/2009); and (iv) the transfer to villages of the Village Fund (*Dana Desa*) to gradually meet the minimum 10 percent of the total transfers to SNGs (Law No. 6/2014). Indicative budget ceilings were first introduced in 2012 using 2011 as a baseline for budget realization data and adjusted for inflation, and identified new government fiscal policies.

The budget process starts when the MOF's Fiscal Policy Office (BKF) establishes the expenditure framework defining the resources available for the next financial year in line with the government deficit target. For the 2017 budget process, Bappenas and the MOF issued the first budget circular (*pagu indikatif*) in a joint decree providing all spending ministries with the hard budget ceilings for the upcoming and three following fiscal years. These indicative budget ceilings serve as a reference for the line ministries to complete their budget preparation and there is no deviation in the subsequent budget submissions.

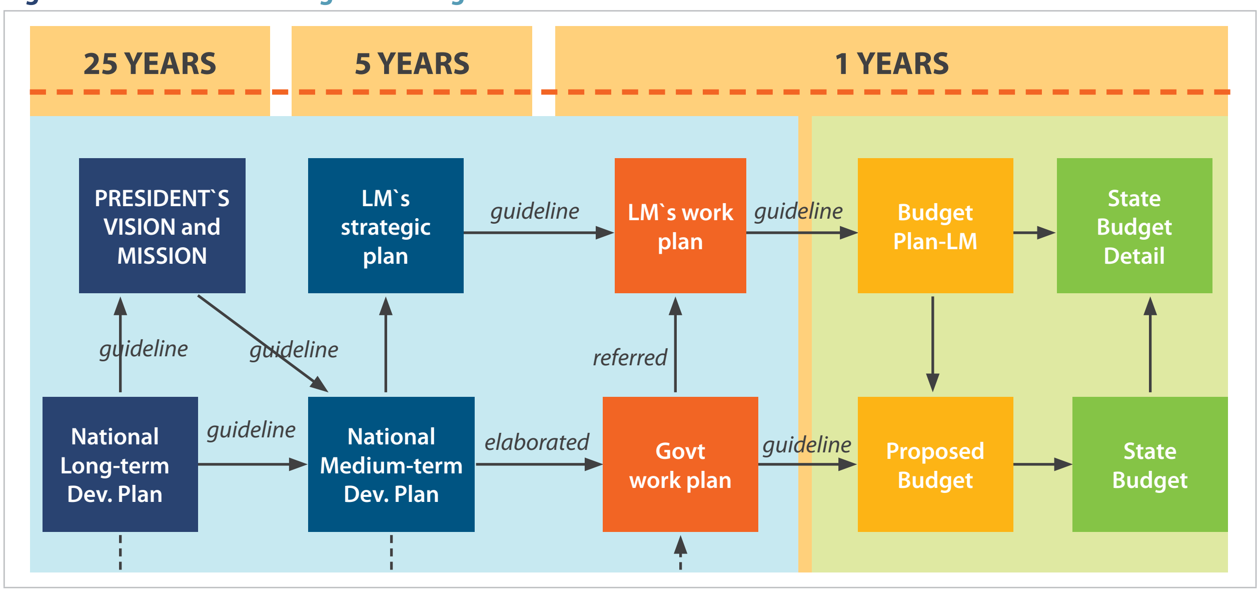
The score for this dimension is assessed as an "A".

PI-16.3: Alignment of Strategic Plans and Medium-term Budgets

The development planning process in Indonesia is an extensive consultative and alignment process applied at all levels of government. At the national level, the 20-year development plan (RJP), the five-year medium-term strategic development plan (RPJM) and the annual government work plan (RKP), should be aligned. The planning process and preparation of the government medium-term strategic plans are led by Bappenas. The development of the performance and program budgeting framework is based on inputs from community groups, experts and line ministries. This internal process is then aligned with the presidential vision and orientation, and translated into the government mission. For the preparation of RPJM, Bappenas receives information on the medium-term fiscal forecasts from the MOF.

In parallel, all line ministries are required to prepare their five-year strategic plans (Renstra). The document is based on the mandate, role, function and authority of the line ministry and contains policies, strategy, programs and activities, including the main performance indicators and targets, and funding estimates. All the information presented at this stage is indicative. While the ministerial strategic plan is prepared separately from the medium-term national development plan, there is an effort to ensure at least nominal consistency between the documents. The ministerial strategic plan (Renstra) becomes the basis for preparing the line ministry's annual work plan (Renja) and the annual budget plan (RKA-KL).

Figure 3: Process for Strategic Planning



Line ministry medium-term strategic plans (Renstra) are prepared and costed by all ministries according to instructions. The fixed nature of the five-year plan (RPJMN and Renstra) guarantees the alignment with the Presidential vision and mission, but restricts the flexibility to include new policy developments within the medium-term plan. Consequently, the budget preparation focuses on the annual budget year, with limited consideration of the medium-term implications of annual budget decisions and the constraints these place on future budgetary decisions.

Prior to 2017, the strategic planning role taken by Bappenas in the annual budget cycle ended when the line ministries prepared their budget plans (RKA-KL), reducing the consistency between the national strategic plan and the medium-term budget estimate (MTEF) prepared by line ministries in an annual rolling plan with the strategic plans (Renstra). In addition, given that the costing of line ministries' plans is not adequately monitored, their reliability to serve as a reference for a proper MTEF is questionable.

As a result, Indonesia's planning and budgeting system operates a complex mechanism for merging the priorities and planned outputs of the President, line ministries, subnational governments and parliament

into a set of work plans and budget allocations over the short and medium term. Based on an ad-hoc MOF analysis, the overall deviation of the Renstra with the MTEF was 33 percent and from the MTEF with the APBN was 55 percent in 2016.

Ministries prepare sector strategic plans (Renstra) but medium-term budgets can diverge in expenditure policy and costing. Some of the annual budget proposals and estimates align with the Renstra. score for this dimension is assessed as a "C".

To further improve the alignment between planning and budgeting, and the consistency between the strategic (five-year) plan and medium-term budgets (MTEF), the government recently issued Government Regulation No. 17/2017 to align the national development plan and budgeting process. The objective is to improve the coordination between Bappenas and the MOF, such that they can work together at every stage of the annual budget process and conduct a baseline review, develop macroeconomic assumptions, set indicative and temporary budgets, review line ministries' budget plans (RKA-KL) and approve line ministries' in-year budget revisions. This mechanism should improve the alignment of the annual plans (RKP) with the national development targets in accordance with the President's vision and strategic priorities, as reflected in the government's medium-term development plan (RPJMN). Article 34 of Government Regulation No. 17/2017 requires both the ministers of the MOF and Bappenas to formulate a (consistent) format, classifications and database systems between Renja-KL and RKA-KL. It also requires both ministries to implement an integrated planning and budgeting information system. KRISNA (*Kolaborasi Perencanaan dan Informasi Kinerja Anggaran*, or collaborated planning and budgeting performance information) is an application built by Bappenas and currently used by the line ministries to develop their annual work plans (Renja-KL) and produce forward estimates that had previously suffered from the lack of alignment with RKA-KL and the MTEF information.

PI-16.4: Consistency of Budgets with the Previous Year's Estimates

The RKA-KL document requires the line ministry to submit information on its budget needs to finance the public investment cost for the three following years. However, in practice this medium-term budget information is for presentation purposes only, since the budget is allocated annually on an incremental basis without consistently using the baseline from the first-year projection of the last year MTEF. Furthermore, the budget appropriation by parliament on an annual basis limits the predictability of the budget allocation for the implementation and financing of major public investment projects beyond one fiscal year period. Contracts for investment projects can be made on a multi-year basis, but only on an exceptional basis and with ex ante review and approval by the MOF.

In October 2016, the MOF issued Regulation No. 163/2016 requiring each line ministry to use the forward estimate of the previous year's MTEF as the baseline for calculating indicative ceilings for the following budget, with a view to promoting better linkages between budget estimates and policies. Deviations between the new budget proposal and the first forward estimate of the previous year's MTEF will have to be explained and justified. To date, the variances between the MTEF and APBN for 2017 have been assessed as minimal, but there is no analysis on the possible variation. The financial note provides an explanation of some changes at the aggregate level only. (Financial Note of 2017 Book 2 Chapter 4 Table II.4.8.). **The score for this dimension is assessed as a "C".**

PI-17: Budget Preparation Process

This indicator measures the effectiveness (measured in timeliness, and an orderly process) of the participation of all relevant—including political—stakeholders in the budget preparation process. An orderly budget process ensures that adequate time and information are available to make sure that budget proposals are developed, taking into account all critical elements for future budget policy decisions.

Dimension and scoring

Score	Minimum requirements for scores
17.1 Budget calendar	
A	A clear annual budget calendar exists, is generally adhered to, and allows budgetary units at least six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.
B	A clear annual budget calendar exists and is largely adhered to. The calendar allows budgetary units at least four weeks from receipt of the budget circular. ***Most*** budgetary units are able to complete their detailed estimates on time.
C	An annual budget calendar exists and ***some*** budgetary units comply with it and meet the deadlines for completing estimates.
D	Performance is less than required for a "C" score.
17.2 Guidance on budget preparation	
A	A comprehensive and clear budget circular or circulars are issued to budgetary units, covering total budget expenditure for the full fiscal year. The budget reflects ministry ceilings approved by the cabinet (or equivalent) prior to the circular's distribution to budgetary units.
B	A comprehensive and clear budget circular or circulars are issued to budgetary units, covering total budget expenditure for the full fiscal year. The budget reflects ministry ceilings submitted to the cabinet (or equivalent). The approval of ceilings by the cabinet may take place after the circular's distribution to budgetary units but before budgetary units have completed their submission.
C	A budget circular or circulars are issued to budgetary units, including ceilings for administrative or functional areas. Total budget expenditure is covered for the full fiscal year. The budget estimates are reviewed and approved by the Cabinet after they have been completed in every detail by budgetary units.
D	Performance is less than required for a "C" score.
17.3 Budget submission to the legislature	
A	The executive has submitted the annual budget proposal to parliament at least two months before the start of the fiscal year in each of the last three years.
B	The executive has submitted the annual budget proposal to parliament at least two months before the start of the fiscal year in two of the last three years and submitted it before the start of the FY in the third year.
C	The executive has submitted the annual budget proposal to parliament at least one month before the start of the fiscal year in two of the last three years.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-17: Budget preparation process (M2)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-17	**A**	**A clear and comprehensive annual budget calendar is issued allowing sufficient time for preparation and submission by spending agencies. The circular includes the approved 'hard' budget ceilings and the budget is systematically submitted to parliament 18 weeks before the start of the new fiscal year.**
PI-17.1: Budget calendar	A	The annual budget calendar allows the spending unit about three months to complete their detailed estimates of budget (RKA-KL) after the first budget circular issued (end of March to June).
PI-17.2: Guidance on budget preparation	A	The first budget circular on indicative ceilings is jointly issued by Bappenas and the MOF in March after a Cabinet meeting to approve the draft annual government-wide work plan (RKP). This budget circular covers total budget expenditure for the full fiscal year and the detailed allocation by line ministries and programs.
PI-17.3: Budget submission to parliament e	A	The President submits the budget proposal to parliament in August (more than two months) before the start of the fiscal year in January.

PI-17.1: Budget Calendar

The budget calendar in Indonesia is fixed and stipulated in State Finance Law No. 17/2003 and detailed in Government Regulation No. 90/2010, which defines the contents and timing for each budget preparation step. The detailed calendar applied to 2017 APBN during the 2016 budget process is as follows:

Table 27: Budget Calendar

Planned Date in 2016	Activity	Actual Date in 2016	Entity Responsible
January	- Policy direction and national development priorities: - Formulating the government annual work plan (RKP) - Line ministry to develop the work plan (Renja)	Throughout the period	Bappenas MOF Line Ministry
February	- Review Baseline - Fiscal Policy Office of the MOF to issue the fiscal capacity estimation	Throughout the period	Bappenas MOF
March	- First draft of the government annual work plan (RKP) - Draft of line ministry's annual work plan (Renja) - Submission of new initiatives - Bappenas and the MOF to jointly issue the first budget circular as the indicative ceiling (sometimes came a little late)	Indicative ceiling for APBN 2017 was issued on May 13, 2016	Bappenas MOF Line Ministry
April	- Trilateral meeting between line ministry, Bappenas, the MOF - National planning consultative meeting (*Musrenbangnas*) - Submission of new initiatives II	Held during April 20 to May 4, 2016	Bappenas MOF Line Ministry

Planned Date in 2016	Activity	Actual Date in 2016	Entity Responsible
May	- Finalizing the government annual work plan (RKP) - Parliament's deliberation result is used as inputs to develop draft budget law (APBN bill) - Discussing the macroeconomic framework and fiscal policy statement and government annual work plan with parliament's budget committee at preliminary discussion - Line ministries develop their annual work plan (Renja) to be discussed with parliament's sectoral commissions.	RKP 2017 was finalized on May 14 2016; Submission RKP to DPR on May 20; and discussion with parliament commission on July 13-14	Bappenas MOF Line Ministry Parliament
June	- Setting the second budget circular called the "budget ceiling" (some time came a bit late) - Line ministry discuss with parliament sectoral commissions on its annual work plan and budget (RKA-KL)	Budget ceiling was released on August 5, 2016 while the RKA-KL discussed on July 20, 2016	MOF Line Ministry
July	- DG Budget reviews line ministry proposals including work plan and budget (RKA-KL) - MOF updated assumptions	July 1-20, 2016	MOF
August	- Submission of the draft annual budget law and Financial Note by the President to parliament, a working day before the national Independence Day of August 17. - The deliberation of draft annual budget law in Parliament - Line ministry discusses its budget proposals (RKA-KL) with the respective parliamentary commission and makes adjustment to the plan as needed	August 16, 2016 August 30 2016 August 31 to September 2, 2016	Bappenas MOF Line Ministry Parliament
September	- MOF discusses Financial Note with parliament - Adjustment to Financial Note and RKA-KL as needed	September 29, 2016 October 17 to 24, 2016	MOF
October	- Parliament enacting annual state budget law (APBN law) two months before starting a new fiscal year. - Final "budget allocation" by line ministry, program, and economic classification - Presidential regulation on detailed annual state budget - Line ministries are required to adjust and finalize their annual work plan and budget (RKA-KL)	October 26, 2016 October 31, 2016 November 30, 2016 October 31 to November 10, 2016	Government Line Ministry Parliament
November	- Issuing the presidential regulation on the detailed annual state budget law, one month before the starting of new fiscal year. Each line ministry is required to prepare budget allotment document (DIPA)	November 30, 2016	MOF Line Ministry
December	- Finalizing budget allotment document (DIPA) for all spending units both line ministries and general state treasurer - Official ceremony to distribute DIPA to line ministries by the President in the state palace	November to December December 7, 2016	MOF

Key dates were met for all central government agencies. The 2017 budget calendar allows for 12 weeks from the issuance of the first budget calendar on May 13, 2016, with budget ceilings to the date of submission of budget proposals by the government to parliament on August 16, 2016.

The score for this dimension is assessed as an "A".

PI-17.2: Guidance on Budget Preparations

Every year, an MOF regulation is issued to provide clear and very detailed technical guidelines for each line ministry to develop its annual work and budget plans (RKA-KL) with forward estimates and to finalize the final budget implementation allotment document (DIPA). This regulation is updated every year to accommodate any recent initiatives and/or changes introduced by the MOF in the budget preparation process. MOF Regulation No. 163/2016 was issued on October 31, 2016, to provide comprehensive guidelines for line ministries to prepare their 2017 budgets.

Budget circulars are comprehensive and are issued in three rounds as mandated by Government Regulation No. 90/2010:

(i) First Budget Circular on Indicative Ceilings issued jointly by Bappenas and the MOF at the end of March after a cabinet meeting to approve the draft annual government-wide work plan (RKP). The circular is sent to the line ministries, notifying the indicative budget as a basis for the line ministries to develop their annual work plan and budget. It covers total budget expenditure for the full fiscal year and the detailed allocation by line ministries and programs

(ii) Second Budget Circular on Budget Ceilings (formerly known as temporary ceiling) issued by the MOF no later than the end of June.

(iii) Final Circular on budget allocation (formerly known as definitive ceiling) prepared by the MOF and issued by the President in the form of a presidential regulation in November following the adoption of the State Budget Law.

The score for this dimension is assessed as an "A".

PI-17.3: Budget Submission to Parliament

The State Finance Law stipulates that the Annual Budget Law is to be presented to parliament by the President in August, usually the day before National Independence Day on August 17, and approved by October, no later than two months prior to the beginning of the fiscal year.

Both parliament and the government have followed this requirement since 2004. The Annual Budget Law is the most important policy document of the executive and its scrutiny and enactment by parliament is a critical sign that Indonesia functions as a democracy. The two-month period allows parliament sufficient time to review and scrutinize the budget. The following two-month period allows the government to prepare a presidential regulation on the detailed budget formulation of budget allotment document (DIPA) for more than 24,000 spending units at the level of line input items. The distribution of DIPA by the President to line ministries at the State Palace in December closes the annual budget formulation process before the start of the next fiscal year.

Table 28: Dates of Submission for the Past Three Fiscal Years

Submission of Annual Budget Law (APBN) to Parliament	2015	2016	2017
Date of submission of APBN bill	August 15	August 15	August 16
Number of weeks to December 31	**18 weeks**	**18 weeks**	**18 weeks**
Effective date of DPR enactment	October 14	November 25	November 17
Effective number of weeks for parliamentary scrutiny (link to PI-18)	8 weeks	14 weeks	12 weeks

Source: Law on APBN and date of Presidential Speech on APBN – Budget bill.

The score for this dimension is assessed as an "A".

PI-18: Legislative Scrutiny of Budgets

This indicator measures the nature and extent of the legislative scrutiny of the annual budget considering the procedures in place and applied in reviewing, debating and approving the annual budget at the parliament.

Dimension and scoring

Score	Minimum requirements for scores
18.1. Scope of budget scrutiny	
A	Parliament's review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities, as well as details of expenditures and revenues.
B	Parliament's review covers fiscal policies and aggregates for the coming year, as well as details of expenditures and revenues.
C	Parliament's review covers details of expenditures and revenues.
D	Performance is less than required for a "C" score.
18.2. Legislative procedures for budget scrutiny	
A	Parliament's procedures to review budget proposals are approved by parliament in advance of budget hearings and are adhered to. The procedures include arrangements for public consultation. They also include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures.
B	Parliament's procedures to review budget proposals are approved by parliament in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements such as specialized review committees, technical support, and negotiation procedures.
C	Parliament's procedures to review budget proposals are approved by parliament in advance of budget hearings and are adhered to.
D	Performance is less than required for a "C" score.
18.3. Timing of budget approval	
A	Parliament has approved the annual budget before the start of the year in each of the last three fiscal years.
B	Parliament has approved the annual budget before the start of the year in two of the last three fiscal years, with a delay of up to one month in the third year.
C	Parliament has approved the annual budget within one month of the start of the year in two or more of the last three fiscal years.
D	Performance is less than required for a "C" score.
18.4. Rules for budget adjustments by the executive	
A	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendments and are adhered to in ***all*** instances.
B	Clear rules exist for in-year budget adjustments by the government, and are adhered to in ***most*** instances. Extensive administrative reallocations may be permitted
C	Clear rules exist which may be adhered to in ***some*** instances <u>or</u> they may allow extensive administrative reallocation, as well as expansion of total expenditure.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-18: Legislative scrutiny of budgets (M1 methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-18	**A**	**The scrutiny of the budget submission by parliament includes fiscal policies and detailed estimates of revenues and expenditures. The budget is approved before the start of the fiscal year and strict rules for in-year budget adjustments by the executive are established by law and applied. However, significant budget adjustments take place.**
PI-18.1: Scope of budget scrutiny	A	The parliamentary review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities, as well as details of expenditure and revenue as defined in the code of conduct.
PI-18.2: Parliamentary procedures for budget scrutiny	A	Law No. 17/2014 on the legislative institutions MD3 (MPR, DPR, DPD and DPRD) regulates the detailed parliamentary procedures to review budget proposals in advance of budget hearings. The law includes arrangements for public consultations. It also includes internal organizational arrangements, such as specialized review committees (Commissions I to XI), technical support (*Badan Keahlia*n DPR), and negotiation procedures.
PI-18.3: Timing of budget approval	A	State Finance Law No. 17/2003 requires parliament to approve budget proposals two months before the start of a fiscal year. Budgets were approved before the start of the year for the past three years.
PI-18.4: Rules for budget adjustment by the executive	A	The Annual State Budget Law sets the rules for in-year budget adjustments (virement) by the executive. The rules set strict limits on the extent and nature of amendments, and are adhered to in all instances (for example, Article 18 of Law No. 18/2016 on APBN FY 2017 sets the type of in-year budget adjustments that can be made by the government without parliamentary approval). Furthermore, the MOF regulates the different types of in-year budget adjustments and approval authority within the government (PMK No. 10/2017 for 2017 budget virements).

Since the transition to democracy and the issuance of the State Finance Law in 2003, Parliament's role has been strengthened and it is now involved in all essential phases of the complex budget formulation process. The effort to promote budget oversight by parliament is also reflected by Indonesia's score in the Open Budget Index (OBI) Survey, conducted by the International Budget Partnership in 2015., ranking 82 out of 100.

PI-18.1: Scope of Budget Scrutiny

Parliament is mandated by the Constitution (UUD 1945, Article 23 point 2) to approve or reject[20] the draft State Budget Law and plays a critical function in scrutinizing the budget presented by the executive. The government's engagement with parliament during the budget formulation process involves different stages:

- Initially, the line ministries engage with parliament's sector-specific commissions, such as health and education, to discuss the line ministries' annual work plans and budgets. Each parliamentary commission, from I to XI, along with their counterpart line ministry in the government, deliberates each ministry's budget proposal in detail.
- Subsequently, the budget proposal is reviewed by members of parliament, regrouped into committees. The Budget Review Committee (*Badan Anggaran*) is set up with 55 members and composed from the representatives of 11 commissions members.

20 If parliament rejects the draft State Budget Law, the government will have to use the maximum limit of budget spending as set in the current fiscal year (last approved budget).

- The final approval on the draft State Budget Law is conducted in the plenary meeting of parliament, which is also attended by government representatives. Approval is reached in principle through consensus of all parliamentary parties or by the majority of votes among members of parliament.

The approval on the draft State Budget Law covers all revenues, expenditures, both national expenditures and fund transfers to the region (provinces and districts/cities), and the amount of funds to cover the state budget's projected deficit and financing. Parliament's review of the Annual Budget Law covers fiscal policies, medium-term fiscal forecasts and medium-term priorities, as well as details of expenditures and revenues as defined in parliament's code of conduct (DPR Regulation No. 1/2014).

The score for this dimension is assessed as an "A".

PI-18.2: Legislative Procedures for Budget Scrutiny

Parliament's engagement in the budget process has evolved through different stages. The adoption of Law No. 27/2009 and its later amendment by Law No. 17/2014 on MD3 (the People's Consultative Assembly, or MPR, the House of Representatives, or DPR, the Regional Representatives Council, or DPD, and the Regional Legislative Councils, or DPRD) regulates the parliamentary procedures to review budget proposals as approved in advance of budget hearings. It includes arrangements for public consultations. It also includes internal organizational arrangements, such as specialized review committees (Commission I to XI), technical support (*Badan Keahlian* DPR) and negotiation procedures. While the active participation of parliament in budget formulation improved, this has also created a challenge for the executive in managing the budget process, as it allowed parliament to intervene in the planning and budgeting decisions at both the individual spending unit and detailed input level.

The role of parliament in the budget process has therefore been subsequently adjusted and limited by Constitutional Court Decree No. 35/2014, focusing parliament's role on the discussion of overall budget policy for inter-sectoral and/or program allocations along with their outputs and outcomes and not preventing discussion and negotiations of the budget at the level of activity and economic classifications. Accordingly, budget proposals submitted by the line ministries have been simplified, with a limited level of detail at the program level only.

Documents have been simplified to facilitate the review and parliamentary hearings and meetings on budget optimization and APBN orientations are now open to the public. Once the proposed budget is enacted as a law, parliament provides its approval to all items without any ability to hold up budget items for further discussion. After the annual budget has been approved two months before the start of new fiscal year, , on November 17, 2016 for APBN 2017, there is no further parliamentary review.

The score for this dimension is assessed as an "A".

PI-18.3: Timing of Budget Approval

As mandated in Article 15 of State Finance Law No. 17/2003, since 2004, the state annual budget law has always been enacted two months before the start of the fiscal year. The 2015 Annual Budget Law was issued on October 14, 2014; the 2016 Annual Budget Law was issued on November 25, 2015 due to Presidential elections, and the 2017 Annual Budget Law was issued on November 17, 2016.

The score for this dimension is assessed as an "A".

PI-18.4: Rules for Budget Adjustment by the Executive

It is a common occurrence that the government makes in-year adjustments to the budget, based on policy decisions and fiscal execution constraints. The main in-year budget revision is carried out through a revised budget process, APBN-P, which is endorsed by parliament and generally adjusts the budget expenditures to the actual fiscal constraints.

Every Annual Budget Law includes an article to set the rules for in-year budget adjustments (virement) by the executive. The rules set strict limits on the extent and nature of amendments and are adhered to in all instances. For example, Article No. 18 of Law 18/2016 on APBN 2017 sets the type of in-year budget adjustments that can be done by the government without parliament's approval:

- Expenditures that are funded from non-tax revenue;
- Expenditures that are funded from loans and grants, including on-granting;
- Reallocation from unallocated budget (BA BUN 999.08) to the line ministry budget allocation;
- Expenditures that are funded from the shariah bonds to finance a line ministry's specific projects;
- Reallocation between programs within one line ministry to cover the operational cost only;
- Reallocation between programs within one line ministry to cover the ineligible cost of donors' loans;
- Reallocation budget from old to new programs due to the reorganization of a new ministry.

Although the flexibility to adjust the budget has been used extensively by the executive in the period to steer budget execution, budget adjustments have been made according to the established rules. In-year budget adjustments have been used by the government as an instrument for policy purposes, e.g., to boost infrastructure spending, or to guarantee the fiscal outcome when revenue mobilization is lower than expected. Nonetheless, the process follows a legal basis. **The score for this dimension is assessed as an "A".**

Furthermore, MOF Regulation No. 10/2017 defines the authority to approve in-year budget adjustments within the government. Three different entities have the right to approve the budget adjustment, namely: the line ministry's spending unit for changes at the input level, DG Treasury for changes at the activity level (with no impact on outputs), and DG Budget for changes at the output level.

Pillar Five: Predictability and Control in Budget Execution

PI-19: Revenue Administration

The government's ability to collect revenues is an essential component of its PFM system and hence the government has made "collecting more" a priority in its PFM reform agenda. This indicator measures the extent to which the government, through its various revenue-collecting agencies (DG Tax, DG Customs and Excise, and DG Budget for non-tax revenues), provides those responsible for collecting revenues with a clear understanding of their rights and obligations (including procedures for seeking redress), while ensuring that mechanisms are in place to ensure compliance and effective administration.

Dimension and scoring

Score	Minimum requirements for scores
19.1. Rights and obligations for revenue measures	
A	Entities collecting most revenues use multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
B	Entities collecting the majority of revenues provide payers with access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
C	Entities collecting the majority of revenues provide payers with access to information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
D	Performance is less than required for a "C" score.
19.2 Revenue risk management	
A	Entities collecting ***most*** revenues use a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for ***all*** categories of revenue and, as a minimum, for their large- and medium-revenue payers.
B	Entities collecting the ***majority*** of revenues use a structured and systematic approach for assessing and prioritizing compliance risks for ***some*** categories of revenue and, as a minimum, for their large revenue payers.
C	Entities collecting the ***majority*** of revenues use approaches that are partly structured and systematic for assessing and prioritizing compliance risks for ***some*** revenue streams.
D	Performance is less than required for a "C" score.
19.3 Revenue audit and investigation	
A	Entities collecting ***most*** revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan, and complete ***all*** planned audits and investigations.
B	Entities collecting the ***majority*** of revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan, and complete ***all*** planned audits and investigations.
C	Entities collecting the ***majority*** of government revenue undertake audits and fraud investigations using a compliance improvement plan and complete the ***majority*** of planned audits and investigations.
D	Performance is less than required for a "C" score.

19.4 Revenue arrears monitoring	
A	The stock of revenue arrears at the end of the last completed fiscal year is below 10 percent of the total revenue collection for the year, and the revenue arrears older than 12 months are less than 25 percent of total revenue arrears for the year.
B	The stock of revenue arrears at the end of the last completed fiscal year is below 20 percent of the total revenue collection of the year and the revenue arrears older than 12 months are less than 50 percent of total revenue arrears for the year.
C	The stock of revenue arrears at the end of the last completed fiscal year is below 40 percent of the total revenue collection for the year and the revenue arrears older than 12 months are less than 75 percent of total revenue arrears.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-19: Revenue administration (M2 methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-19	**C+**	**Taxpayers have access to information on their obligations and rights, including redress mechanisms. DG Tax and DG Customs and Excise have recently introduced modern risk management standards and techniques to improve revenue collection (a Compliance Risk Management system is currently being designed by DGT). The 2016 tax amnesty program was a successful initiative to increase compliance of targeted high potential taxpayers. However, the risk management approach in place still lack effectiveness and requires access to more comprehensive and reliable data to prove effective. Audits and investigations are available and are based on formal plans reported and consolidated from local tax offices to DG Tax audit department. The recorded stock of arrears is limited to 2% of revenues and all uncollectible tax arrears are depreciated.**
PI-19.1: Rights and obligations for revenue measures	B	The two major agencies responsible for more than 80% of the revenue collection have established numerous channels to provide broad access to information on obligations and rights, and facilitate the application of the tax and customs regulations. The mechanisms for redress process and procedures are handled by well-established and independent tax courts.
PI-19.2: Revenue risk management	C	The risk management approach currently in place within DG Tax covers high level risks but does not permit a structured and comprehensive compliance improvement approach for all large taxpayers across core taxes and tax obligations. The government is currently introducing modern practices and effective risk management methods to improve DG Tax and DG Customs and Excise administrations.
PI-19.3: Revenue audit and investigation	B	Massive efforts have been undertaken to expand the tax base through audit and investigation activities. The current risk-based approach targets selected large taxpayers and "risk-defined" cases, there is a documented compliance improvement reporting system from each tax auditor and taxpayers and clear guidelines from DG Tax on annual targets and quality assurance from DG Tax to ensure consistency in the audit approach.
PI-19.4: Revenue arrears monitoring	C	Based on the available information, the stock of revenue arrears is below 10% of the total revenue collection for 2016 and the revenue arrears older than 12 months are less than 75% of the total stock of arrears for the year. The definition of the collectability of the tax arrears is complex with the write off policy of uncollectible arrears can be more systemic, but the process of recording and monitoring the arrears is established.

In accordance with Law No. 17/2003, MOF administers state revenue - income derived from taxation, non-taxation, and domestic and foreign grants. DG Tax was responsible for direct and indirect tax representing 70.5 percent of all revenue collection in 2016; DG Customs and Excise collects international trade tax and excise and was responsible for 11.5 percent of 2016 total revenues; and DG Budget collects non-tax revenues, or *Penerimaan Negara Bukan Pajak* (oil and gas, mining, fisher, forestry, and geothermal**)**, and "others" (profits from SOEs, revenue from BLU and line ministries), representing 16.8 percent of the 2016 revenues collected. In recent years, more than 80 percent of the total national revenues collected were derived from taxation as shown in the table below:

Table 29: Distribution of Revenue Collection in 2016 (IDR trillion)

	2015	2016	2016 Actual	2017	2017
	Actual Audited	Budget	Actual Audited	% of Total Revenue	Budget
A. Revenues	**1,508**	**1,822**	**1,556**	**100%**	**1,750**
(% of GDP)	*13.1*	*14.6*	12.5		*12.5*
1. Tax revenues	**1,240**	**1,547**	**1,285**	**82.6%**	**1,499**
(% of GDP)	*10.7*	*12.4*	10.4		*10.9*
Income taxes	602	757	666	42.8%	788
Oil & Gas	*50*	*41*	*36*	*2.3%*	*36*
Non-Oil & Gas	*553*	*716*	*630*	*40.5%*	*752*
VAT/LGST	424	572	412	26.5%	494
Property taxes	29	19	19	1.2%	17
Excises	145	146	144	1.8	157
International trade taxes	35	40	35	2.2%	34
Import duties	*31*	*37*	*32*	*2.1%*	*34*
Export duties	*4*	*3*	*3*	*<1%*	*0*
Other taxes	6	12	8	<1%	9
2. Non-tax revenues	**256**	**274**	**262**	**16.8%**	**250**
(% of GDP)	*2.2*	*2.2*	2.1		*1.8*
Natural resources revenues	101	125	65	4.2%	87
Oil & Gas	*78*	*79*	*44*	*2.8%*	*64*
Non-Oil & Gas	*23*	*46*	*21*	*1.3%*	*23*
Other non-tax revenues	155	149	197	12.7%	163
3. Grants	**12**	**2**	**9**	**0.6%**	**1**

Source: MOF, World Bank IEQ June 2017.

PI-19.1: Rights and Obligations for Revenue Measures

Significant efforts have been made to provide taxpayers with access to user-friendly sources of information on taxation laws, rules and regulations, and filing procedures. DG Tax has also established numerous channels for taxpayers to communicate with DG Tax on their tax-related rights and obligations. DG Tax has established a Directorate of Tax Dissemination, Services and Public Relations, which provides services and outreach programs to taxpayers, handles press releases, and disseminates information on particularly sensitive issues related to fraud cases that involve internal resources.

Another DG Tax dedicated unit, *Kantor Layanan Informasi dan Pengaduan* (KLIP), provides additional outreach services to taxpayers, disseminating new policies, as well as managing public relations. The official DG Tax website, www.pajak.go.id, provides comprehensive information about DG Tax as the main revenue-collecting organization and technical information about tax administration procedures. DG Tax's call center, KRINGPAJAK 1500200, provides information services on the latest regulations, policies and public announcements, but also offers tax filing and complaint filing options. Online service applications (e-SPT, e-forms, e-filing, e-billing) have been introduced and https://djponline.pajak.go.id offer one-stop services for taxpayers to file income tax returns. Since the official introduction of e-filing for individual taxpayers in 2013, the number of e-filers (corporate and individual) has increased significantly from 26,187 (less than 1 percent of registered taxpayers) to 8,009,471 in 2016 (24.1 percent of 33.2 million registered taxpayers according to DG Tax portal as of June 2017).

In July 2014, DG Tax piloted e-VAT invoicing for 45 VAT taxpayers of the Large Taxpayers Office (LTO) and the Medium Taxpayers Office (MTO) in Special Region Tax Office of Jakarta area, which was followed in July 2015 to all VAT taxpayers in the Java and Bali. Starting in July 2016, e-VAT invoicing has become mandatory for all VAT taxpayers.

There are several different channels available to file external complaints. DG Tax's *Kepatuhan Internal dan Transformasi Sumber Daya Aparatur* (KITSDA), Directorate of Internal Compliance and Resources for Apparatus Transformation, inaugurated in 2008, provides several channels to file external complaints via a help desk (021) 52970777, a call center KRING PAJAK 1500200, and via email, such as kode.etik@pajak.go.id or pengaduan@pajak.go.id or investigasi@pajak.go.id. Taxpayers may also submit their complaints directly to the MOF via www.wise.kemenkeu.go.id (managed by the Inspectorate General). Meanwhile, tax officials may also report alleged indications of misconduct via SIKKA (internal personnel website).

The processes for finalizing an assessment through objection and appeal can be time consuming, as there is no time limit for the Tax Court to publish its decision and it can also result in a 100 percent penalty. The Tax Court is theoretically independent of DG Tax but many judges are former DG Tax employees. These characteristics create some uncertainty for taxpayers but nevertheless the Tax Court rules in the taxpayer's favor in half of the cases[21]. The dispute resolution mechanisms involve the following steps:

- Taxpayers can object after the assessment is made;
- Objections are considered by the regional taxpayer office, which is legally required to make a decision within 12 months;
- In case of further disagreement, taxpayers can appeal to an independent Tax Court, which must hear the case within 12 months of the appeal.

In the customs area, the DG Customs and Excise provides wide-ranging information on its official website www.beacukai.go.id by type of services (import duties, export tax, excise, facilities, etc.), with news, articles, data and statistics updated on a regular basis and available in English. To facilitate the integration of users' services, www.beacukai.go.id provides direct links and access to other application portals, such as:

- CEISA, Customs-Excise Information System and Automation, is a web-based application that integrates all services offered by DG Customs and Excise and available to all public users on customs and excise services (online registration, online document request, online excise application), publications of customs data (manifest of imported goods, data on notice of imported/exported goods, customs payable data), and references or publications about complaint services.
- Go Fas(t), a customs facilities wizard for customized users' search.
- Feedback and Complaints portal where users can file complaints and provide feedback for the services rendered by DG Customs and Excise with a tracking and follow-up system.
- BayMan, application for manual payment, at http://bppm.beacukai.go.id/bayman, offers registered users the option to create manual payment documents linked to local customs office. Treasurers can then confirm and validate payment receipts and upload receipts to the billing system.

To reach out to all customers across all its vast territory, DG Customs and Excise introduced in 2015 the call center BRAVO 1500225 to provide users with one communication channel (also available in English), as a single point of contact for customers for any information, including complaints handling through e-mail, telephone, short message, web chat and social media. DG Customs and Excise has also established representative offices at the borders and in remote areas that have limited internet access.[22]

21 According to a DG Tax source

22 Indonesia introduced the National Single Window (NSA) system in 2011. However, it still ranks below average among its East Pacific neighbors, at 108 out of 190 economies on the "Ease of trading across borders" and 166 on "Ease to enforce contract".

Procedures for objection and appeal in the area of customs and excise are heavily regulated, and governed by Law No. 19/2000, Law No. 17/2006 and MOF Regulation No. 111/2013 on Procedures for Collection of Import Duties and/or Excise. Furthermore, MOF Regulation No. 217/PMK.04/2010 and Director General's Regulation No. PER-09/BC/2016 regulate the objection procedures for customs, and MOF Regulation No. 114/PMK.04/2008 and Regulation No. PER-01/BC/2011 on objection procedures for excise. Appeals may be filed to Indonesia's Tax Court within 60 days after the date of the customs determination letter (in the case of a SPKTNP issued by the DGCE to re-determine a tariff and/or customs valuation). Before filing the appeal, the underpayment amount must be fully settled. The hearing process normally will be completed within 12 months. However, in some cases, it may be extended up to a further three months.

Information on non-tax revenues is available in the laws and regulations issued by the respective line ministries and available on their websites. For example, royalties on mines and minerals are covered by the Mining Law, or the Law on Minerals and Coal Mining No. 4/2009, and implementing regulations are under the authority of the Ministry of Energy and Mineral Resources (MOEMR) and the MOF. Royalties on forestry resources are governed by Law No. 41/1999 on Forestry amended by Law No. 19/2004 from the Ministry of Forestry. The agencies responsible for collecting and managing the particular revenue are responsible for disseminating the corresponding information. The appeal and redress mechanism is governed by MOF Regulation PP No. 34/2010 authorizing line ministries to carry out the process with an option to appeal through a legal judiciary procedure.

Based on the information above, at least the two major agencies responsible for more than 80 percent of the revenue collection have established numerous channels to provide broad access to information on obligations and rights, and redress processes and procedures have also been formally established. The score for this dimension is assessed as a "B".

PI-19.2: Revenue Risk Management

As the government institution in charge of revenue collection management, MOF has been working on a structured approach within all its revenue-collection agencies to assess and prioritize compliance risks and define relevant measures to remedy for the identified compliance gaps. In 2008, the MOF issued PMK No. 191/PMK.08/2008, a regulation that assigned one Echelon II unit in each Directorate General to take responsibility as risk owners in their own organization, by developing and implementing a risk management plan. In the same year, the MOF established the Directorate of Internal Compliance and Apparatus Resources Transformation, or KISTDA, to support the implementation of risk monitoring and compliance within the DG Tax organization. DG Tax delivered the first phase of a risk management plan to regional offices in Jakarta and East Java in 2010, followed by a second phase in 2011 to roll out risk management plans to all its other 29 units. Circular Letter No. SE-7/PJ/2011 promotes and assigns responsibility and commitment to risk mitigation within the organization. In 2013, DG Tax issued a risk guidance book (*Risiko Generik dan Penerapan Manajemen Risiko)* outlining definitions, types of risk, mitigation and risk procedures mapped in accordance with DG Tax's strategic objectives.

Recently, the implementation of a risk-based compliance model was set as one of the strategic initiatives of the Institutional Transformation Blueprint for DG Tax, Compliance Risk Management model (CRM), under the strategic initiative of *Developing a Predictive Risk-based Compliance Model linked to Business Processes*. The ongoing CRM reform is further strengthened by DG Tax Decree No. 95/PJ/2015 that outlines its strategic plan for 2015-19. Since 2015, a new CRM framework has been introduced by the DG Tax risk management project team to identify high-risk taxpayers and strengthen the application of a risk-based audit approach. The first set of CRM pilots was delivered in 2015 by 16 tax offices targeting STOs and MTOs located on the major islands of Java, Kalimantan, Sulawesi and Sumatra. The risk model used by DG Tax is consistent with ISO 31000 standards on risk management and has the following characteristics:

Table 30: Risk Management and Mitigation Plan - DG Tax

Strategic Objective	Risks	Risk Mitigation
Optimal Tax Revenue	Tax revenue shortfall	Strategic: 1. Distributing tax revenue target to each regional office (KEP-01/PJ/2016) 2. Distributing tax revenue extra effort to each regional office (S-54/PJ/2016) 3. Formulating strategies to secure 2016 tax revenue (S-41/PJ/2016) Operational: 1. Organizing coordination meetings regularly among tax offices 2. Organizing Account Representative Forums focusing on regional tax revenue
High Taxpayer Compliance	Taxpayer does not fulfill his tax obligations	Strategic: 1. Formulating strategies to secure 2016 taxpayer compliance ratio (SE-7/PJ/2016) 2. Formulating strategies to increase the receipt of electronic annual tax returns (S-166/PJ.10/2016) Operational: 1. Increasing tax office service quality 2. Organizing taxpayer forums focusing on tax obligation comprehension
Increased Taxpayer Supervision	Taxpayer supervision is not optimally managed	Strategic: 1. Establishing Mobile Tax Unit (PER-23/PJ/2016) 2. Improving Compliance Risk Management (CRM) Operational: 1. Increasing Account Representative's competency 2. Optimizing data as source of supervision

DG Tax's risk management plan covers 33 regional offices and more than 300 local offices spread across the country, with specific and mandatory risk management plans. DG Tax is also currently developing a risk engine to improve taxpayers' compliance level based on the CRM framework with a planned roll-out in 2020.

DG Tax continues its "extensification" program to boost tax revenue and expand the taxpayer base by increasing the number of registered taxpayers across all taxes and enforcing a requirement for universal filing of returns through e-filing. Targeted campaigns aimed at increasing compliance of individuals and businesses in high tax potential sectors have recently been carried out.[23]

In order to improve access to third party data, *Kantor Pelayanan Data Eksternal* (KPDE), or the unit in charge of third-party external data management, has also been established in accordance with MOF Regulation No. 39/PMK.03/2016 on Data Information and Procedures for Tax Purposes, and 67 institutions are required to submit data and information to DG Tax in this context. Indonesia also recently adopted the Base Erosion and Profit Shifting (BEPS) from the OECD framework, with the aim of tackling tax avoidance and improving alignment with international tax rules. Through Ministerial Decrees No. 885/KMK.03/2016 and KMK No. 909/KMK.03/2016, reform teams were accordingly established at DG Tax and DG Customs and Excise by the end of 2016, with a steering committee co-chaired by the finance minister and the coordinating minister for economic affairs. The World Bank, IMF and OECD were nominated in the decrees as observers.

23 The tax amnesty program was launched in 2016, with the slogan *declare, pay, relieve,* and aimed to collect additional revenue from the undeclared assets of taxpayers (individuals, corporates and MSMEs). The three-phased amnesty program started on July 1, 2016, when the draft law was enacted, and concluded on March 31, 2017, with progressive tariffs set for different types of taxpayers during each of the three amnesty phases. A special tariff was assigned for MSMEs and taxpayers willing to repatriate their offshore assets. The revenue target from the tax amnesty program was IDR 165 trillion and the total revenue collected was IDR 135 trillion, with IDR 4,881 trillion of total assets declared. The overall tax compliance ratio increased from 59.12 percent in 2014 to 63.15 percent in 2016, and the ratio was at 69.55 percent at the end of the tax amnesty program in March 2017.

However, the recent internal assessment performed by government as of December 2016, published in Ministerial Decree No. 360/KMK-03/2017, still concluded in the lack of comprehensive risk-management mapping based on reliable and consistent data. DG Tax evaluated the lack of available data to assess the compliance gaps and address and prioritize risks across all core taxes and tax obligations. Identified low tax compliance ratios are partially addressed through specific measures targeting certain economic sectors, large taxpayers and major taxes, however, the impact on the effectiveness of tax collection is still limited.

In the area of customs and excise, an effective risk management system is in place. Customs and excise procedures and regulations, including import duties, are stated in Law No. 17/2006 and Law No. 39/2007. The blueprint of the institutional transformation program for DG Customs and Excise outlines 10 strategic initiatives with the aim to optimize revenue collection. DG Customs and Excise introduced the Authorized Economic Operator (AEO) policy in 2014 with MOF Regulation No. 227/PMK.04/2014. The AEO, which is in aligned with the World Customs Organization (WCO) framework, covers all international supply chain security standards. A special priority channel known as MITA (Main Partner/*Mitra Utama*) was introduced in 2007 for companies with high compliance status and an excellent track record. As of 2016, 264 importers had been granted a MITA status and 47 of them had also received an AEO status. AEOs currently contribute up to 30 percent of total DG Customs and Excise revenue. Imported goods through the green channel contribute 60 percent and the contribution from the red channel is about 10 percent. In conjunction with AEO and MITA, DG Customs and Excise has also developed a risk management system for excise known as PINCUK, an intranet based application portal used by account representatives in local offices to monitor revenue from tobacco excise, for example, and can be accessed at http://pps.beacukai.go.id/pincuk. In April 2017, DG Customs and Excise introduced a more advanced risk integration and monitoring system supported by a risk engine that feeds on importers' track records, commodities and companies' profiles, Notice of Imported Goods (PIBs) and third-party data. DG Customs and Excise has already rolled out a full risk-based monitoring engine (automated monitoring tool) called SKPJ (Compliance System for Service User) starting in 2017.

In summary, although the government has been taking drastic measures to strengthen and streamline revenue collection by addressing major compliance gaps and target large taxpayers, a comprehensive and systematic risk management approach is still being developed to assess and prioritize risks effectively. The impact of the current mitigation strategies lacks comprehensive documentation on implementation and results. **Based on the information provided, the score for the dimension 19.2 is assessed as a "C".**

PI-19.3: Revenue Audit and Investigation

The Directorate of Audit and Collection, responsible for conducting audit activities based on auditing standards, in accordance with General Provisions and Tax Procedures (*Ketentuan Umum dan Tata Cara Perpajakan/*KUP), Law No. 6/1983 amended by Law No. 16/2009. Based on the KUP Law, the main function of audit is to assess taxpayers' compliance against data and information (income and assets) previously reported in their returns. The institutional transformation initiative and MOF Regulation No. 234/PMK.01/2015 on Restructuring Revenue Organization established three new functions within DG Tax: international taxation, tax intelligence, and tax law enforcement. "Increase in the Effectiveness of Law Enforcement" is a key strategic objective of the DG Tax Strategic Plan 2015-2019, with three policies: (i) selective tax enforcement; (ii) optimization and upgrading of human resources; and (iii) cooperation and collaboration with other law enforcement agencies.

By the end of 2016, DG Tax employed a total of 4,872 auditors and 848 investigators, 28 of whom were internal investigators with authority to conduct administrative investigations under the KITSDA Directorate. In addition to these functions, 130 digital forensic investigators support audit and criminal investigation, in response to the increasing number of tax fraud cases that involve digital technology.

DG Tax develops an audit strategy and plan every year that includes regulations, human resources, audit scope and other resources. This plan includes compliance improvement targets by taxes, taxpayers and tax offices. The 2016 DG Tax audit plan focused on specific industries, such as banking, insurance and non-bank financial institutions, infrastructure-supporting industries, telecommunications, automotive, and electronic industries. DG Tax exceeded its plans and conducted 11,684 risk-based audits for individual taxpayers and 6,432 for corporate taxpayers, totalling 18,116 risk-based audits. These audit instructions were part of the 40,028 total audits carried out. All these audits and investigations are monitored and reported within the DG Tax audit database, with audit coverage against targets, audit findings and adjustment rates by taxpayers for each tax auditor and tax office.

DG Tax also has the authority to work with the MOF to investigate money laundering. In accordance with Law No. 8/2010 on the Prevention and Combating of Money Laundering, DG Tax and DG Customs and Excise are also granted the authority to investigate money laundering in cooperation with the MOF's Financial Transaction Analysis and Investigation Unit (PPATK). All tax investigation units at the regional tax offices (RTO) and head offices (Directorate of Law Enforcement) are expected to conduct investigations. The table below shows the performance of investigation units for audits and investigations managed and reported in the past two years:

Table 31: Tax Audit and Investigation Realization (IDR trillion)

Description	2015			2016		
	Target	Actual	%	Target	Actual	%
Completed audits	43,709	33,612	77%	40,028	41,143	103%
Revenue from audit	73,5	38,7	53%	64.3	65	101%
Completed investigations	38	65	171%	47	58	123%

Source: DG Tax Audit Report Application, August 2017

DG Customs and Excise has the authority and mandate to monitor, audit, investigate and enforce collection in the area of customs and excise in accordance with Law No. 17/2006 regarding Customs, Law No. 39/2007 regarding Excise, and MOF Regulation No. 200/PMK.04/2011 on Audit. Three types of audit are conducted in customs and excise: general audit, special audit and investigation audit. The Director of Audit and the Head of Regional Office or Custom and Excise Office have the responsibility to develop and implement audit plans. A list of audit plans is generated by the Executive Information System (EIS) using risk-based criteria as follows: registration, import/export transaction, transaction under special facility, excise data, in/out manifests, etc. Using risk-based analysis, DG Customs and Excise has also introduced a thematic annual audit plan based on data and the national interest. DG Customs and Excise is also granted the authority to conduct investigations and law enforcement in the transfer pricing area.

In 2016, based on the data provided by DG Customs and Excise, 335 audits and investigations were completed representing 116 percent of the total of 288 planned audits. The ratio of follow-up on recommendations is 61 percent in 2015.

The audits and investigations on non-tax revenue involve the external and internal audit agencies, BPK and BPKP, respectively, and are conducted with the corresponding line ministries.

Based on the information provided, DG Tax and DG Customs and Excise have implemented audits and investigations according to their audit plans, the score for dimension 19.3 is assessed as a "B".

PI-19.4: Revenue Arrears Monitoring

Tax arrears management is also a key strategic objectives of DG Tax's strategic plan under the theme 'Increase in the Effectiveness of Law Enforcement'. In accordance with Tax Laws No. 16/2009 and No. 19/2000, tax collection and tax arrears are classified into separate categories based on their collectability—collectible, less collectible, doubtful and uncollectible—and ageing, as depicted in Table 31 below.

Table 32: Tax Arrears Classification Based on Collectability in 2016 (IDR trillion)

Category of Arrears	Collectible	Less Collectible	Doubtful	Uncollectible	Total
Gross tax arrears minus confiscated goods/ collateral	9.5	15.2	16.9	60	101.7
% depreciation allowance	0.5%	10%	50%	100%	68.8%
Tax arrears include depreciation allowance	**9.4**	**13.7**	**8.4**	**-**	**31.7**

Source: DG Tax Annual Report 2016.

DG Tax assesses the collectability of the tax arrears, as well as records the legal expiration of arrears that need to be depreciated. Based on the 2016 DG Tax report, the net tax arrears excluding the expired arrears as of December 31, 2016, amounted to IDR 79.4 trillion, or 5 percent of the total tax revenue collection of IDR 1,499 trillion. Based on the information provided by DG Tax, the stock of net tax arrears older than 12 months represented 63.7 percent of total net arrears. By mid-2017, the stock of arrears older than 12 months has been declining and represents 50.2 percent of total net arrears. DG Tax has the legal authority to write off uncollectible arrears. However, it is also important to note that disputed tax payments are not considered arrears until the litigation is settled and legal procedures awaiting adjudication from appeals of a tax assessment can take up to 24 months to resolve, from the period for objection to the completion of the appeal procedures. The ageing of the arrears is therefore not entirely reliable. In addition, significant amount of arrears older than 10 years and declared totally uncollectible are kept in the records until a write-off decision is taken by the MOF.

Table 33: Aging of Tax Arrears in 2016 (IDR billion)

Age of Arrears	< 12 Months	>12 Months	Total Net Arrears
Amount	28,841.7	50,590.9	**79,432.6**
% of total	36.3%	63.7%	**100%**

Source: DG Tax Annual Report 2016 (audited).

For DG Customs and Excise, the net arrears due at the end of 2016 are estimated at IDR 3,134 billion, or 1.8 percent of the customs and excise revenues of IDR 178,995 billion, and 85.3 percent of this stock is older than 12 months. Similar to DG Tax, collectability is defined into two separate categories of collectability and ageing. The breakdown of the arrears based on their ageing is as follows**:**

Table 34: Ageing of Arrears for Customs and Excise in 2016 (IDR billion)

Age of Arrears	< 12 Months	>12 Months	Total Net Arrears
Amount	459.4	2,674.9	**3,134.4**
% of total	14.7%	85.3%	**100%**

Source: Audited Financial Report of DG Custom and Excise.

In addition, the information available from PNBP on non-tax revenue arrears by 2016 presents an amount of IDR 16.2 billion (PNBP data from LKKL MOF 2016 audited), or less than 1 percent of the annual non-tax revenue collection. This low amount is explained by the fact that a large share of non-tax revenues is generated from oil and gas royalties and contract payments, based on self-assessed declarations and/or audited findings from companies under contract-sharing arrangements, where all liabilities are not recorded as arrears but deducted on a regular basis. The revenue is only recorded when the payment is made and there is no receivable amount recorded.

Based on the data provided by the MOF, the consolidated stock of net arrears for all three sources of revenues is estimated at IDR 82.6 trillion, or 6 percent of total government revenue of IDR 1,555.9 trillion in 2016. The stock of net arrears older than 12 months for DG Tax and DG Customs and Excise is estimated at 64.5 percent of the total stock of arrears. The balance of tax and non-tax arrears at the end of every fiscal year is audited by the external auditor (BPK) and serves as the quality assurance for tax collection. There is no mention of issue with tax arrears in the latest 2016 BPK audit reports.

Based on the information provided, the score for dimension 19.4 is assessed as a "C".

PI-20: Accounting for Revenue

The efficiency of the tax system depends largely on the timing and diligence with which collected revenues are made available to the Treasury to finance the provision of public goods and services. This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected and reconciling tax revenue accounts. It covers both tax and non-tax revenue collection by the central government.

Dimension and scoring

Score	Minimum requirements for scores
20.1. Information on revenue collections	
A	A central agency obtains revenue data at least monthly from entities collecting ***all*** central government revenue. This information is broken down by revenue type and is consolidated into a report.
B	A central agency obtains revenue data at least monthly from entities collecting ***most*** central government revenue. This information is broken down by revenue type and is consolidated into a report.
C	A central agency obtains revenue data at least monthly from entities collecting the ***majority*** of central government revenue and consolidates the data.
D	Performance is less than required for a "C" score.
20.2. Transfer of revenue collections	
A	Entities collecting ***most*** central government revenues transfer the collections directly into accounts controlled by DG Treasury, or transfer the collections daily to DG Treasury and other designated agencies.
B	Entities collecting ***most*** central government revenue transfer the collections to DG Treasury and other designated agencies at least weekly.
C	Entities collecting ***most*** central government revenue transfer the collections to DG Treasury and other designated agencies at least every two weeks.
D	Performance is less than required for a "C" score.
20.3. Revenue accounts reconciliation	
A	Entities collecting ***most*** central government revenue undertake complete reconciliation of assessments, collections, arrears, and transfers to DG Treasury and other designated agencies at least quarterly within four weeks of the end of quarter.
B	Entities collecting ***most*** central government revenue undertake complete reconciliation of assessments, collections, arrears and transfers to DG Treasury and other designated agencies at least half-yearly within eight weeks of the end of the half-year.
C	Entities collecting ***most*** government revenue undertake complete reconciliation of collections and transfers to DG Treasury and other designated agencies at least annually within 2 months of the end of the year.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-20: Accounting for revenue (M1 methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-20	**A**	**Revenue collection, transfer and reconciliation in compliance with TSA requirements and applicable regulations, and allow for timely and accurate information on revenue.**
PI-20.1: Information on revenue collections	A	With MPN G-2 system, DG Treasury obtains revenue data from accredited revenue-collecting banks and for all (tax and non-tax) central government revenues on a daily basis. The data can be accessed by collecting agencies (DG Tax, DG Custom and Excise and DG Budget).
PI-20.2: Transfer of revenue collections	A	The TSA requires all accredited revenue-collecting banks to transfer all central government revenue collection directly into TSA accounts controlled and consolidated by DG Treasury on a daily basis. Revenue collection outside TSA: post office or VAT are transferred to the main system.

Indicator/Dimension (number and name)	Score	Brief Justification for Score
PI-20.3: Revenue accounts reconciliation	A	Reconciliation and consolidation of all government collections/ revenue deposits are conducted by DG Treasury with the receiving banks and revenue agencies on a monthly basis. Attachment of MOF Regulation No. 210/2013, a finance regulation on reconciliation, establishes the reconciliation procedure, and stipulates that reconciliation is to be done at the latest 10 days after the end of the month.

The Directorates General involved in collecting are also responsible for accounting for revenues, namely DG Tax, DG Customs and Excise, and DG Budget. DG Treasury is responsible for the consolidation and accounting of revenue.

At present, state revenue is collected through various channels:

(i) Revenues from various taxes, and customs and excises, can be deposited in branches of accredited collecting banks or post offices by individual and corporate taxpayers. The headquarters of the collecting banks consolidate all tax collections and transfer them to Bank Indonesia's (BI) TSA on a daily basis.

(ii) Some taxes, such as revenue-sharing, profits and dividends, are deposited directly by SOEs into the state general cash account (RKUN). These include revenues from revenue-sharing (oil, gas and natural resources), profits and dividends from SOEs, and repayments of (two-step) government loans.

(iii) For cash inflows from grants, DG Treasury operates special accounts at BI for better coordination between international donors/lenders and beneficiaries (line ministries, state institutions or subnational governments).

PI-20.1: Information on Revenue Collections

The MPN system is the core data collection system. In 2009, DG Treasury developed *Modul Penerimaan Negara* (MPN), or the State Revenue Consolidation System, to manage revenue collection data. The concept of MPN was established to create an integrated state revenue receipt system by using a single database. The MPN system has emerged as the core and integrated system for collection and transfer of government revenue deposits from collecting banks into the TSA held by Bank Indonesia.

In order to improve revenue-collection information, the MOF developed a second generation of MPN (MPN G-2). The billing system is a new feature of MPN G-2, which provides a taxpayer with a billing code to deposit tax/non-tax payment into the bank/post office account. By the end of 2016, MPN G-2 was rolled out across all collecting agencies in Indonesia for all central government revenues. With the full implementation of MPN G-2, DG Treasury obtains all revenue data daily from commercial banks and spending units. The collecting bank branches are responsible for reporting revenue-collection data to their respective headquarters, which then consolidate collection data from all branches nationwide and store them in their databases. The data from the headquarters of collecting branches, combined with the withholding tax data from payments made by local DG Treasury branches, are sent to the Cash Management Directorate and IT Directorate of DG Treasury to be consolidated into total government collection data, as part of the government's financial reporting.

Treasury obtains real time information on revenue collection and consolidates reports by source and revenue type. The score for this dimension is an "A".

PI-20.2: Transfer of Revenue Collections

DG Treasury completed the roll-out of the TSA for revenues in 2012 and in 2016, 2,516 branches of 81 commercial banks and all post offices had been accredited as the revenue-collecting agencies (*Bank Persepsi*) to collect revenue payments from all taxpayers and sweep the funds the same day to the TSA. The agreement between DG Treasury and these revenue-collecting banks includes: (i) the payment of fees for banking services; (ii) the obligation of the banks to transfer revenue collections to the TSA within one day; and (iii) the requirement of the banks to provide appropriate information technology to support the smooth collection of state receipts. It also provides penalty articles in the event of delayed remittances to the TSA on the same day.

Most of state revenues are transferred into accounts directly controlled by Treasury or transferred on a daily basis. he score for this dimension is an "A".

PI-20.3: Revenue Accounts Reconciliation

The reconciliation and consolidation of all government collections/revenue deposits are conducted by DG Treasury with the receiving banks and the revenue agencies on a monthly basis. The full implementation of MPN G-2 and SPAN have reduced the time for reconciliation of the revenue accounts. According to Finance Minister Regulation No. 32/2014 on the Electronic State Revenue Management System, the Special Local Treasury Office for Revenue (KPPN-*Penerimaan*) conducts daily reconciliations for both transactions and cash data by comparing the receipt and cash data from the collecting banks with the revenue recorded in the MPN G-2 system. Furthermore, the revenue data between the collection transactions and the BI accounts are reconciled with all revenue-collecting agencies (DG Tax, DG Customs and DG Budget) by the 14th of the following month. Reconciliations of arrears and collection adjustments with DG Tax and DG Customs are also finalized during the monthly reconciliation process and fully completed at the time of inputs for the development of the financial statements at the end of the fiscal year. **The score for this dimension is an "A".**

PI-21: Predictability of In-year Resource Allocation

This indicator assesses the MOF capacity to forecast cash commitments and requirements, and provide reliable information to budgetary units on the availability of funds for service delivery.

Dimension and scoring

Score	Minimum requirements for scores
21.1. Consolidation of cash balances	
A	All bank and cash balances are consolidated on a daily basis.
B	All bank and cash balances are consolidated on a weekly basis.
C	Most cash balances are consolidated on a monthly basis.
D	Performance is less than required for a "C" score.
21.2. Cash forecasting and monitoring	
A	A cash flow forecast is prepared for the fiscal year and is updated monthly on the basis of actual cash inflows and outflows.
B	A cash flow forecast is prepared for the fiscal year and is updated at least quarterly on the basis of actual cash inflows and outflows.
C	A cash flow forecast is prepared for the fiscal year.
D	Performance is less than required for a "C" score.
21.3. Information on commitment ceilings	
A	Budgetary units are able to plan and commit expenditure for at least 6 months in advance in accordance with the budgeted appropriations and cash/commitment releases.
B	Budgetary units are provided reliable information on commitment ceilings at least quarterly in advance.
C	Budgetary units are provided reliable information on commitment ceilings at least one month in advance.
D	Performance is less than required for a "C" score.

Score	Minimum requirements for scores
21.4. Significance of in-year budget adjustments	
A	Significant in-year adjustments to budget allocations take place no more than twice in a year and are done in a transparent and predictable way.
B	Significant in-year adjustments to budget allocations take place no more than twice in a year and are done in a fairly transparent way.
C	Significant in-year budget adjustments to budget allocations are frequent, and are partially transparent.
D	Performance is less than required for a "C" score.

Time period: 2017 for 21.1 and 2016 for 21.2, 21.3 and 21.4.

Summary of Scores and Performance for PI-21: Predictability of in-year resource allocation (M2 methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-21	**A**	**The TSA is in place for both revenues and expenditures. Cash balances are consolidated on a daily basis and cash forecasts are defined and updated monthly. Commitments are defined by law (DIPA). Two significant adjustments to the approved budget take place through the revised budget process and presidential instructions to line ministries through a fairly transparent process.**
PI-21.1: Consolidation of cash balances	A	The TSA allows the government to consolidate all of its cash balances on a daily basis within a consolidated account kept in BI. No other significant cash balances exist outside the TSA.
PI-21.2: Cash forecasting and monitoring	A	A cash flow forecast is prepared for the whole fiscal year and reflected in the DIPA document. The largest (in spending) line ministries and the MOF update their annual plans regularly through quarterly, monthly and daily cash flow forecasts. The cash management function is integrated as one of the SPAN FMIS functions.
PI-21.3: Information on commitment ceilings	A	DIPA defines and guarantees the ceiling for expenditure commitments or funds available for each spending unit to commit spending for one fiscal year. The availability of funds in DIPA is guaranteed by law. The only adjustments that can be made to the commitment ceilings need to be through the budget process (APBN-P).
PI-21.4: Significance of in-year budget adjustments	B	The revised budget (APBN-P) has been enacted every year since 2010 by parliament and leads to significant adjustments to the original budget. A second significant adjustment has taken place right after the revised budget was enacted in 2016 that gave line ministries some flexibility to decide on the budget cuts (self-blocking).

PI-21.1: Consolidation of Cash Balances

The cash management function has improved significantly since the implementation of the TSA and is supported by numerous regulations.[24] The TSA allows the government to consolidate all its cash balances on a

24 Government Regulation No. 39/2007 on State/Regional Cash Management; Article 14 (2): "All state revenues shall be deposited to the State General Cash Account and all state spending shall be disbursed from the State General Cash Account."; Regulation of the Minister of Finance No. 98/PMK.05/2007 regarding the Implementation of Zero Balance Expenditure Accounts in Commercial Banks' in the Framework of TSA Implementation; PMK No. 116/2009 regarding Zero Balance Revenue Accounts in the Implementation of TSA; Regulation of the Minister of Finance No. 61/PMK.05/2009 regarding the Application of Treasury Notional Pooling in the Spending Treasurer Account

daily basis within a consolidated account (General Fund) kept at Bank Indonesia. As a result, financing costs have decreased and the control of both revenues and expenditures has improved. Cash management has also improved significantly with the implementation of the new Financial Management Information System (FMIS), called SPAN in Indonesia. The process for consolidation of government cash balances into a TSA includes a number of principles:

(i) All state receipts must be deposited into, and all state expenditures paid out of, the TSA;
(ii) All government accounts opened by each line ministry, as well as the MOF, must be consolidated and approved by DG Treasury;
(iii) Implementation of the TSA for expenditure accounts through Zero-Balance Accounts in Operational Banks (BO-I and II) for payments to suppliers in order to eliminate idle balances held in government bank accounts held outside the TSA.
(iv) Implementation of daily sweeping of revenue-collection accounts in collecting banks/post offices, and a requirement that all state receipts be swept to the TSA in BI on a daily basis;
(v) Non-cash consolidation and monitoring balances from imprest accounts held by spending units through the application of the Treasury Notional Pooling arrangement and the consolidation of balances of petty cash advances held by commercial banks for all 24,000 spending units on a daily basis;
(vi) Remuneration for surplus cash balances held in BI and the payment of service fees for government banking services provided to commercial banks that collect state revenue from taxpayers and non-taxpayers (at a rate of 65 percent of the BI reference rate for cash kept in the TSA and IDR 5,000 per revenue-collection transaction); and
(vii) Placement of idle funds into interest-bearing accounts at BI or commercial banks on short-term investments in secured and profitable monetary instruments.

All bank and cash balances are consolidated on a daily basis. The score for this dimension is an "A".

PI-21.2: Cash Forecasting and Monitoring

The MOF is responsible for consolidating the cash forecast and setting the consolidated cash balance targets, while the line ministries provide periodic projections of their individual cash flow requirements to the MOF. Previously, the MOF required all 24,000+ spending units to submit their updated cash plan data every month. To improve the quality and accuracy of cash forecasting, the MOF simplified the procedure in 2015 for the spending units with large amounts of expenditures.

Procedures for line ministry cash plans involve the provision of quarterly, monthly and daily cash flow forecasts, and are based on both "bottom-up" and "top-down" projections. "Top-down" cash projections are prepared by the MOF based on historical data, the cash disbursement plan, and the quantification of new policies that will be implemented in the next fiscal year. "Bottom-up" cash projections are prepared by spending units based on activity planning and contracts to be implemented during the year. The consolidated data are then used to confirm the cash balance position. DG Treasury will inform the Debt Management Unit to issue short-term financing in case of a cash shortage, or invest cash surplus in short-term investment instruments in case of a surplus, as authorized under MOF Regulation No. 115/2016.

To further improve the accuracy of monthly cash forecasts, the MOF has established an inter-directorate committee called CPIN (Cash Planning Information Network) that comprises technical staff from various DGs (DG Budget, DG Treasury, DG Debt Management, DG Fiscal Balance and the Fiscal Policy Agency) within the MOF. CPIN holds monthly discussion meetings and releases monthly cash forecasting reports for the finance minister. **The score for this dimension is an "A".**

PI-21.3: Information on Commitment Ceilings

DG Budget is responsible for preparing the detailed budget allotment document (DIPA) soon after parliament's approval of the budget for the next fiscal year. The DIPA includes budget allocations for each spending unit, with detailed information on functions/sub-functions, programs and outcomes, activities and outputs, economic classification, monthly cash disbursements and cash flow forecasts.

The DIPA imposes ceilings on expenditure commitments or the funds available for each spending unit's commitments for the whole fiscal year. The availability of funds in the DIPA is guaranteed by law (State Treasury Law No. 1/2004). Spending units can therefore plan activities, commit expenditure, procure inputs for effective service delivery, and avoid disruption of the implementation of these plans once they are underway.

Budgetary units are able to plan and commit expenditures at least six month in advance based on budget appropriations and commitment releases. The score for this dimension is an "A".

PI-21.4: Significance of In-year Budget Adjustment

State Finance Law No. 17/2003 regulates that any revisions to the original annual State Budget Law must be made through a new budget law and submitted to parliament. The state annual budget is usually revised once a year through the revised budget APBN-P to reflect significant changes in macroeconomic and fiscal assumptions. This formal revised budget process takes place in a transparent and predictable way, as it uses a similar process to that followed when the government prepares the original annual State Budget Law to be approved by parliament.

Every annual State Budget Law states clearly the conditions for the in-year budget adjustments when the original state budget can be revised by the MOF without parliamentary review. For example, Article No. 36 of Law No. 18/2016 on the State Budget for FY 2017 stated that adjustments to the annual State Budget Law could only be made if there were changes to macroeconomic indicators and fiscal policy statements, and other situations where there was a need to shift budget among different line ministries and/or programs. There is no specific time at which the government can submit in-year budget adjustment proposals, since the law authorizes the government to propose budget revisions to parliament at any time during the fiscal year.

Two significant budget adjustments took place in 2016, following lower-than-expected levels of revenue collection. The President issued two consecutive instructions to reduce budget allocations, first before the revised budget (APBN-P) through Presidential Instruction No. 4/2016 on May 12, 2016, and second, soon after the revised budget by President Instruction No. 8/2016 on August 26, 2016. The latter required the eighty-three line ministries to cut IDR 63.7 trillion (around 10 percent of their revised budget) to maintain the fiscal deficit, legally capped at 3 percent of GDP. The instruction provided general guidance to focus the expenditure cuts on non-productive and non-priority spending (under the category goods and services, including official travel and meetings expenses), although the final decision was ultimately left to each line ministry (self-blocking process). Presidential Instruction No. 8/2016 was an exceptional adjustment justified for fiscal sustainability reasons and affected the budget allocations (APBN-P) that had just been revised and approved by parliament on July 27, 2016. **Although it may have had an impact on the delivery of programs, the flexibility left to line ministries to decide on their adjustments made it a fairly transparent process. The score for this dimension is a "B"**

PI-22: Expenditure Arrears

This indicator assesses the extent to which there is a stock of arrears and the extent to which a systemic problem in this regard is being addressed and brought under control.

Dimension and scoring

Score	Minimum requirements for scores
22.1. Stock of expenditure arrears	
A	The stock of expenditure arrears is no more than 2% of total expenditure in at least two of the last three completed fiscal years.
B	The stock of expenditure arrears is no more than 6% of total expenditure in at least two of the last three completed fiscal years.
C	The stock of expenditure arrears is no more than 10% of total expenditure in at least two of the last three completed fiscal years.
D	Performance is less than required for a "C" score.
22.2. Expenditure arrears monitoring	
A	Data on the stock, age, and composition of expenditure arrears are generated quarterly within four weeks of the end of each quarter.
B	Data on the stock and composition of expenditure arrears are generated quarterly within eight weeks of the end of each quarter.
C	Data on the stock and composition of expenditure arrears are generated annually at the end of each fiscal year.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-22: Expenditure arrears (M1 methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-22	**B+**	**Stock of expenditure arrears is no more than 6% of the total expenditure for two of the previous three years (2014 and 2016). The aging of arrears cannot exceed 30 days by law and the rule is fully applied.**
PI-22.1: Stock of expenditure arrears	B	The stock of expenditure arrears in the form of short-term third-party liabilities is more than 2% but less than 6% in the last two completed fiscal years (2014 and 2015).
PI-22.2: Expenditure arrears monitoring	A	The data on the stock and composition of expenditure arrears are managed by the line ministries and the MOF. Expenditure arrears are required to be settled in the next fiscal year in less than 30 days after billing verification process is completed. Stock of arrears cannot be older than 30 days by law and the amount for pending payments suspended for litigation is covered by a contingency provision in the accounts and all recorded third party liabilities are liquidated in this legal timeframe

PI-22.1: Stock of Expenditure Arrears

Indonesia follows a cash-based budgeting system and full accrual accounting has only been used since 2015. The line ministries' authority to commit annual expenditure is strictly limited within the commitment ceiling stated in the DIPA. Government Regulation No. 45/2013 requires the line ministry to settle any billing rights or invoices no later than 30 calendar days from the day the complete billing proofs are received (Article 75), or otherwise the government can be penalized for the delays in the payment of its obligations. Hence, arrears are only attributable to expenditures unaccounted for during the year, or delays in submitting claims and/or processing payments to suppliers at the end of a fiscal year, but are very limited in amount.

Additionally, the strict ceilings of the DIPA regulation limits expenditure arrears due to inadequate commitment controls cash rationing or under-budgeting. Expenditure arrears are mostly due to the additional time needed for ex ante authorization by BPKP (mostly by auditors) to verify third-party invoices prior to final payments of the obligations. This affects all final payments from the transfer of revenue-sharing funds (DBH) to the regions that can only be paid once the calculation of actual revenues to be shared has been finalized, which causes delays in the approval of funds and payment authorization.

The implementation of full accrual accounting system since 2015 requires the recording of arrears under Accounts Payables, when the government cannot settle its obligations and needs to carry payments over to the next fiscal year. Under the current system, all liabilities to third parties are recorded. The audited financial reports for the past three years recorded various types of expenditure arrears, as shown in the table below:

Table 35: Expenditure Arrears (IDR million)

Third Party Liabilities of:	December 31, 2014	December 31, 2015	December 31, 2016
Line ministries	17,498,667	18,308,635	22,438,519
MOF (BUN)	20,481,529	52,107,069	13,695,649
Total expenditure arrears	37,980,199	70,415,704	36,726219
Total expenditure	1,777,182,856	1,806,515,202	1.864.275.092
% arrears to total expenditures	**2.2%**	**3.9%**	**1.97%**

Source: Audited government annual financial reports for 2014, 2015 and 2016.

The total amount of arrears represented more than 2 percent but less than 6 percent of total expenditure in two of the last three completed fiscal years, t**he score for this dimension is assessed as a "B".**

PI-22.2: Expenditure Arrears Monitoring

All expenditure arrears in the form of third-party liabilities are classified under short-term liabilities that need to be paid in less than one year. Arrears cannot be carried forward to the next fiscal year, unless duly justified, either by the need for verification for final payments and/or pending the claim for final delivery. As a consequence, the MOF considers it does not require for them to report the age profile information on these expenditure arrears, since line ministries and the MOF are responsible for settling the claims according to the payment deadlines within a budget year and/or immediately in the following budget year if there is a specific reason to delay the payment. All arrears identified in the table 34 above have been cleared within the regulated timeframe and aging is not monitored from one year to another. **The score for this dimension is assessed as an "A".**

PI-23: Payroll Controls

This indicator assesses the controls over the public servant payroll system, one of the largest items of government expenditure.

Dimension and scoring

Score	Minimum requirements for scores
23.1. Integration of payroll and personnel records	
A	Approved staff list, personnel database, and payroll are directly linked to ensure budget control, data consistency, and monthly reconciliation.
B	The payroll is supported by full documentation for ***all*** changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions.
C	Reconciliation of the payroll with personnel records takes place at least every six months. Staff hiring and promotion is checked against the approved budget prior to authorization.
D	Performance is less than required for a "C" score.
23.2. Management of payroll changes	
A	Required changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. Retroactive adjustments are rare. If reliable data exists, it shows corrections in a maximum of 3% of salary payments.
B	Personnel records and payroll are updated at least quarterly and require ***a few*** retroactive adjustments.
C	Personnel records and payroll are updated at least quarterly and require ***some*** retroactive adjustments.
D	Performance is less than required for a "C" score.
23.3. Internal control of payroll	
A	Authority to change records and payroll is restricted, results in an audit trail, and is adequate to ensure full integrity of data.
B	Authority and basis for changes to personnel records and the payroll are clear and adequate to ensure high integrity of data.
C	Sufficient controls exist to ensure integrity of the payroll data of greatest importance.
D	Performance is less than required for a "C" score.

Score	Minimum requirements for scores
23.4. Payroll audit	
A	A strong system of annual payroll audits exists to expose control weaknesses and identify ghost workers.
B	A payroll audit covering ***all*** central government entities has been conducted at least once in the last three completed fiscal years (whether in stages or as one single exercise).
C	Partial payroll audits or staff surveys have been undertaken within the past three completed fiscal years.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-23: Payroll controls (M1 methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-23	**C+**	**Payroll and personnel records are not integrated but reconciliations are conducted monthly. Changes to personnel records and payroll are duly authorized and processed by the MOF based on the information from the line ministries that can result in occasional delays. Partial payroll audits are conducted by BPK and regular controls are carried out by BKN resulting in regular adjustments to the payroll.**
PI-23.1: Integration of payroll and personnel records	B	The use of GPP Satker application (*Aplikasi Gaji PNS Pusat)* integrates the personnel database managed by the line ministries with the payroll calculation managed by the MOF on SPAN to ensure budget control and data consistency. The reconciliation takes place manually every month based on the line ministry data, and personnel hiring and promotion are authorized by the civil service agency, BKN.
PI-23.2: Management of payroll changes	B	payroll changes depend on line ministries' information andretroactive adjustments to the personnel records and payroll data still take place, but are minimal.
PI-23.3: Internal control of payroll	A	SPAN requires each individual public servant data to be registered and recorded in the (supplier) database module of SPAN for payroll payment to be processed. Adjustments in the SPAN module for payroll payments are restricted. The authority to change personnel records depends on the internal control systems in place at the line ministry level. Internal control systems in place at the line ministry level are considered effective and reliable, and external audit reports do not raise payroll control issues.
PI-23.4: Payroll audit	C	The line ministry internal auditors (IGs) are responsible for auditing the personnel data recorded in the GPP application and identifying ghost workers, while the MOF's Inspectorate General regularly reviews SPAN system to ensure the reliability of payroll transactions. The external auditor (BPK) has conducted only partial audits in the past three years and the government employee administration agency (BKN) carries out monthly reconciliations and adjustments.

The civil service in Indonesia is composed of 4.3 million permanent employees (including the administrative within the military and police force), as shown in the table below:

Table 36: Distribution of Government Employees in 2016 from BKN Database

Line Ministry	Total Employees	
Kementerian Agama	234,366	Ministry of Religious Affairs
Kementerian Riset, Teknologi, dan Pendidikan Tinggi	113,917	Ministry of Research, Technology and Higher Education
Kementerian Keuangan	69,907	Ministry of Finance
Kementerian Pertahanan	61,218	Ministry of Defense
Kementerian Kesehatan	51,231	Ministry of Health
Kementerian Hukum dan Hak Asasi Manusia	43,520	Ministry of Law and Human Rights
Mahkamah Agung RI	30,852	The Supreme Court
Kementerian Perhubungan	29,437	Ministry of Transportation

Line Ministry	Total Employees	
Kepolisian Negara	25,617	State Police
Kementerian Pekerjaan Umum dan Perumahan Rakyat	22,915	Ministry for Public Works and Human Settlements
Kejaksaan Agung	21,916	Attorney General's Office
Kementerian Agraria dan Tata Ruang/Badan Pertanahan Nasional	20,487	Ministry of Agrarian Affairs and the National Land Office / Land Agency
Total main line ministries	725,.383	78% of total central government employees
Total central government employees	**925,767**	**21% total government employees**
Total local government employees	**3,463,835**	

Source: BKN Database.

PI-23.1: Integration of Payroll and Personnel Records

Payroll used to be the responsibility of the National Civil Service Agency (*Badan Kepegawaian Negara*, or BKN), which was also responsible until 2008 for endorsing appointments, recruitment, promotions, demotions and retirement of all civil servants at both central and local government levels, and maintained personnel records centrally. The frequency and size of retroactive adjustments to the personnel database were an indication of delays in updating employees' database at the line ministry level due to the lack of integration with the payroll system. The accuracy of employee data held by BKN was questionable.

The following adjustments have been introduced to strengthen personnel and payroll management over the years:

(i) In 2008, the management of payroll information for central government civil servants (including military and police officers) was decentralized from the MOF to the line ministries to increase their responsibility and improve their accountability (MOF Regulation No. 133/2008). Line ministries are now responsible for verifying their staff data, calculating and charging employee costs to the budget, administering employee data, updating employee status, and supervising the adjustments of records with adequate internal control procedures.

(ii) Treasury Regulation No. 37/2009 requires each spending unit of the central government line ministry (Satker) to manage their employee expenditure administration data. Salary expenditure treasurers at the Satker level are responsible for preparing payroll calculations using a computer application called GPP Satker, *Aplikasi Gagi PNS Pusat* (GPP) and submitting monthly payment requests to the MOF's Treasury offices (KPPN) after verifying the consistency of the information with the DG Treasury payroll system.

Currently, the salaries of 1.62 million government employees are paid electronically by SPAN directly to each individual account. This has helped increase governance and control over accuracy of staff salary payment details. Each line ministry maintains and updates its own personnel records, and the payroll is processed centrally at the MOF. The information is regularly updated and reconciled between the Satker and the MOF DG Treasury systems. Monthly verification procedures between the BKN database and the MOF payroll data lead to the regular removal of ghost workers.

The reconciliation of line ministries' personnel records with the MOF's payroll system takes place but with some delays. Staff movements are initiated by line ministries, authorized by BKN, and that information is passed on to DG Treasury to update the monthly payroll, **so that the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. The score for this dimension is assessed as a "B".**

PI-23.2: Management of Payroll Changes

Changes made to the payroll are based on the documentation issued by BKN with supporting documentation from the line ministries. The adjustments on promotion or step increments are normally processed within the month after requests are submitted. However, in practice, and despite the adoption of the GPP Satker application and SPAN, some delays and retroactive adjustments to personnel records and payroll data still occur due to the late notification of the changes by the line ministries and it can take up to three months to update changes to the personnel records and payroll. As the systems are not integrated, there can be delays in updating personnel records and payroll data. Corrections and adjustments are often triggered by employees' claims and adjustments with the payroll department in DG Treasury and, as a result, the MOF's payroll is considered the most reliable source of personnel information. **The score for PI-23.2 is assessed at a "B".**

PI-23.3: Internal Control of Payroll

Since 2015, with the implementation of the new FMIS (SPAN) and payroll module, all central government salaries are now paid electronically and directly into each individual's registered bank account, and adjustments are recorded in the payroll module with an audit trail. SPAN has improved the accuracy of payroll payments, reduced the number of anomalies, and allowed for a more systematic update of government employees' status. The shortfall is that the module is not integrated across systems at the MOF, in the line ministries, or in BKN, which means that updates and reconciliations still require a manual process, reducing the timeliness of all adjustments and the effectiveness of control procedures.

Each Satker is responsible for maintaining its respective personnel records and for ensuring authorizations are adequately defined and audit trails are in place. Payroll controls are in place in the DG Treasury payroll system for the preparation, validation, calculation and segregation of preparation, and payment functions with reduced options for unauthorized adjustments in payroll payments. SPAN requires each individual public servant data to be registered and recorded in the payroll module for payments to be processed. An effective internal control system is in place and the system establishes the authority to change personnel records and payroll database in SPAN. Access is restricted and an automatic audit trail is generated.

Building the payroll system into the FMIS (SPAN) has allowed for an automatic audit trail that prevents unauthorized payment transactions. With SPAN, the authority to change records and payroll is restricted and is adequate to ensure full integrity of data. The score for this dimension is assessed at an "A".

PI-23.4: Payroll Audit

The internal auditor (Inspectorate General) of each line ministry is responsible for the audit of personnel data recorded in the GPP Satker application and identifying ghost workers. However, audit reports by the line ministries do not mention findings on payroll issues. The MOF's Inspectorate General reviews the SPAN system regularly to ensure the reliability of payroll transactions. Two dedicated MOF internal auditors for payroll are assigned to cover and control the payroll information. BPK external audit reports cover the payroll function of line ministries, but payroll audits remain partial. The 2016 consolidated external audit report and the external audit reports by the line ministries do not mention irregularities in central government payroll transactions, implying that automated systems and regular reconciliations between the systems are effective at the central government level. **The score for this dimension is assessed as a "C".**

PI-24: Procurement

Significant spending takes place through the public procurement system. This indicator examines key aspects of procurement management to ensure the effective use of public funds in acquiring inputs for, and achieving value for money in, the delivery of programs and services by the government. It focuses on the transparency of arrangements, and emphasizes open and competitive procedures for monitoring procurement results, and access to appeal and redress arrangements. The scope of the indicator covers the procurement of goods, services, civil works and major equipment investments implemented at the central government level, excluding the defense sector, as this information is typically classified and confidential by law.

Dimension and scoring

Score	Minimum requirements for scores
24.1. Procurement monitoring	
A	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for ***all*** procurement methods for goods, services and works.
B	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for ***most*** procurement methods for goods, services and works.
C	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for the ***majority*** of procurement methods for goods, services and works.
D	Performance is less than required for a "C" score.
24.2. Procurement methods	
The total value of contracts awarded through competitive methods in the last completed fiscal year represents:	
A	80% or more of total value of contracts.
B	70% or more of total value of contracts.
C	60% or more of total value of contracts.
D	Less than required for a "C" score.
24.3. Public access to procurement information	
Key procurement information to be made available to the public comprises: (1) legal and regulatory framework for procurement; (2) government procurement plans; (3) bidding opportunities; (4) contract awards (purpose, contractor and value); (5) data on resolution of procurement complaints; and (6) annual procurement statistics.	
A	Every key procurement information element is complete and reliable for government units representing ***all*** procurement operations and is made available to the public in a timely manner.
B	At least four of the key procurement information elements are complete and reliable for government units representing ***most*** procurement operations and are made available to the public in a timely manner.
C	At least three of the key procurement information elements are complete and reliable for government units representing the ***majority*** of procurement operations and are made available to the public.
D	Performance is less than required for a "C" score.
24.4. Procurement complaints management	
Complaints are reviewed by a body which: (1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions; (2) does not charge fees that prohibit access by concerned parties; (3) follows processes for submission and resolution of complaints that are clearly defined and publicly available; (4) exercises the authority to suspend the procurement process; (5) issues decisions within the timeframe specified in the rules/regulations; and (6) issues decisions that are binding on every party (without precluding subsequent access to an external higher authority).	

A	The procurement complaint system meets every criterion.
B	The procurement complaint system meets criterion (1), and three of the other criteria.
C	The procurement complaint system meets criterion (1), and one of the other criteria.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-24: Procurement (M2 methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-24	**C**	**Most procurement contracts are monitored centrally and maintained through the e-procurement system. An estimated 70% of contracts are awarded through competitive methods and three out of six key procurement information elements are complete and reliable. There is no independent procurement complaints system as the review of the complaint mechanism involves both procuring and contracting entities by law.**
PI-24.1: Procurement monitoring	C	Monitoring information is available only for contracts procured through e-tendering using the e-procurement system and representing 70% of total value of contracts.
PI-24.2: Procurement methods	B	The estimated total value of contracts awarded competitively through e-tendering together with the smaller value contracts awarded competitively through simplified lesser competitive methods outside of the e-procurement system, together represented at least 70% of the estimated total procurement spend in FY 2016.
PI-24.3: Public access to procurement information	C	Out of the six criteria, three fully meet the publication requirements: (i) legal and regulatory framework for procurement, (ii) government procurement plans, and (iii) bidding opportunities.
PI-24.4: Procurement complaints management	D	While the mechanism allows resolutions of complaints by an external higher authority at the appeal stage, the review of the complaints mechanism is not independent since the concerned parties (the procuring and contracting entities) are involved in reviewing such complaints.

The Public Procurement Framework

The National Public Procurement Agency (LKPP) was established in 2007, as the regulatory agency responsible for formulating, developing and implementing public procurement policies. The following are its main functions:
a. Drafting and formulating strategies, as well as policies and standard procedures in the field of public procurement, including private sector procurement within the framework of public-private partnerships.
b. Drafting and formulating strategies, as well as policies, to develop human resources in the field of public procurement.
c. Monitoring and evaluation of procurement implementation.
d. Development of information systems, as well as monitoring of public procurement electronically (e-procurement).
e. Provision of technical guidance, advocacy and legal counsel.
f. Conducting general administrative services in the field of planning, corporate governance, staffing, finances and equipment.

Public procurement is governed by Presidential Regulation (Perpres) No. 54/2010 on Public Procurement, which has been amended four times. The decree sets out the principles, methods, procedures, and roles and responsibilities for carrying out public procurement. It requires all government units at the national and subnational levels to adopt e-procurement to increase transparency and efficiency in the procurement process. It also requires procurement service units (ULPs) to be established with accredited personnel at all levels of government to standardize the organization of procurement across the entire government. The most recent amendment, Presidential Regulation No. 4/2015, was introduced to mandate the use of an e-procurement system (SPSE) and to streamline procurement processes and procedures. This was followed by Presidential Instruction No. 1/2015 aimed at accelerating e-procurement processing and boosting government spending in the infrastructure sector.

Competition is specified as the default method in the presidential regulation. The procurement process for all contracts for goods, works and other services exceeding IDR 200 million (about USD15,000) per contract, and for consultant services exceeding IDR 50 million (about USD3,700) per contract, is required to be carried out by the ULPs following open competitive procedures through advertising and using the SPSE e-procurement system (e-tendering). Procurement below these thresholds can be carried out by the ULP or a procurement officer through a range of simplified procurement methods, for which the use of e-procurement system is not required. Direct Appointment (single source) requires specified conditions to be met. LKPP has also established an e-Catalogue for procuring agencies to directly purchase their required goods online from the e-Catalogue (e-Purchasing). LKPP has populated the e-Catalogue with a wide range of goods, together with their suppliers and prices. LKPP periodically publishes notices inviting suppliers in the market to offer various types of required goods. Pre-determined price ranges and technical and qualification requirements of the required goods are published on the LKPP e-Catalogue screens for the perusal of interested bidders/suppliers. All successful suppliers are then listed on the e-Catalogue along with their products and prices. There may be multiple suppliers offering different prices for the same goods. Procuring agencies are then free to choose the supplier they wish to purchase from at the listed price, without the requirement to select the lowest price. Accordingly, there is no price competition in the contract award process through the e-Catalogue (e-Purchasing).

PI-24.1: Procurement Monitoring

Use of the e-procurement system (SPSE) is mandatory. Because of the mandatory use of e-procurement by procurement units (*Unit Layanan Pengadaan,* or ULP) for all contracts awarded through e-tendering, this means that procurement data on the goods or services procured, the value of the procurements, and successful bidders or suppliers, are all recorded through centralized online reporting systems and applications developed and maintained by LKPP (LPSE for e-tendering and "MONEVOL"). Procurement data are published in the national e-procurement portal INAPROC. These databases are updated in real time. For all other contracts, other than those awarded through e-Purchasing/e-Catalogue, the procuring and contracting entities are required by the presidential regulation to maintain and publish the data at least on their own systems. The Perpres also requires hardcopies of procurement and contract documents, including bids and proposals, to be stored for review and audit purposes.

A central database of the required information exists for all contracts awarded through e-tendering. While the Perpres requires procuring agencies to maintain records of complete procurement and contract documentation for all awarded contracts, there was no information available during the assessment to confirm the level of compliance by the various procuring agencies of this requirement. Furthermore, there was no database or records available during the assessment on the contracts awarded through the e-Catalogue. **Accordingly, it can only be concluded that a complete database is available only for contracts awarded through e-tendering, which represent 70 percent of the total procurement spend.**

Based on the above, the score for dimension 24.1 is assessed at a "C".

PI-24.2: Procurement Methods

For the purpose of the PEFA assessment, the total value of contracts awarded through competitive methods is assessed based on the total value of awarded contracts taken from the SMART Report: (i) the value of contracts awarded through *e-tendering* and *e-purchasing* (e-Catalogue); and (ii) the total estimated value of the procurement expenditure in the country derived from the audited 2016 Central Government Finance Report. The calculation can be summarized in the table below:

Table 37: Summary of Value of Procurement and Contract Awards of 2016

Procurement Classification:	Competitive Method (IDR billion)
Total Actual Value of Awarded Contracts in Smart Report (*exclude e-purchasing*) *	277.487,00
Total Value of Awarded Contracts in Smart Report (*include e-purchasing*) *	328.282,00
Total Value of Budgeted Contracts at Audited LKPP 2016**	402.717,00
Total Value of Competitive Contracts (exclude e-purchasing) against Audited LKPP 2016	69%
Total Value of Competitive Contracts (include e-purchasing) against Audited LKPP 2016	82%

Notes: *Actual amount. **Based on assumption that it includes relevant expenditures with procurement (capital, goods and services, grant to local government, and transfer for DAK/P2D2)

The estimated amount of contracts awarded competitively includes the data from the SPSE e-procurement system and an assumption for the procurement of smaller value contracts outside the e-procurement system. Based on the SMART report, in 2016 the total value of contracts awarded competitively through e-tendering using the SPSE e-procurement system amounted to IDR 277.5 trillion. To this amount should be added the significant number of smaller value contracts that were procured competitively following the simplified lesser competitive methods. Because these contracts fell below the legal threshold for required use of the e-procurement system and were procured manually, their total value is not available.

The government's total spending through public procurement is estimated at IDR 402.7 trillion (equivalent to about 30 percent of the total value of the government expenditures), derived from the 2016 Central Government Financial Statement. The total value of contracts awarded competitively through e-tendering using the SPSE e-procurement system (IDR 277.5 trillion), divided by the estimated total procurement spending in 2016 (IDR 402.7 trillion), represents 68.9 percent. Taking into account that the smaller value contracts awarded competitively represent a significant number of the awarded contracts in numbers and can be estimated as to be higher than IDR 4.4 trillion[25] , **it is assumed that the total percentage of contracts procured competitively will be at least 70 percent.**

It should also be noted that for the purpose of this calculation the total value of contracts awarded through the e-Catalogue/e-Purchasing (IDR 50.8 trillion based on the SMART report) is not included in determining the total value of competitively procured contracts, as e-purchasing does not guarantee price competition in the award of contracts, and therefore the share of competitively awarded contracts through the e-purchasing cannot be determined. Therefore, the estimates are considered very conservative and the actual percentage would be expected to be higher. **Score for this dimension PI-24.2 is assessed as a "B".**

PI-24.3: Public Access to Procurement Information

The following is the status of key procurement information required under Criteria 1-6 to be made available to the public:

- **(i) Criteria met:** Legal and regulatory framework for procurement is published (http://www.lkpp.go.id/v3/#/regulation), which includes relevant laws, regulations, implementing decrees, procedural guidance and standard procurement documents;
- **(ii) Criteria met:** Government procurement plans are published at (https://sirup.lkpp.go.id/);
- **(iii) Criteria met:** Bidding opportunities are published at (http://lpse.go.id);
- **(iv) Criteria not met:** Contract award information for competitive procurement carried out by ULPs through e-procurement system (i.e., above the thresholds of IDR 200 million for goods, works and services, and IDR 50 million for consultant services) is published through LKPP's central website (https://inaproc.lkpp.go.id/v3). Contract award information below these thresholds is required to be published at the agency's website

25 Based on estimates by the WB Procurement team

and official publication boards at a minimum. However, procurement through the e-Catalogue and Direct Appointment (single source) is not made available to the public;

(v) Criteria not met: Data on the resolution of procurement complaints are not available to the public. Each procuring entity may publish complaints and resolutions under each package through the e-procurement system (LPSE) and/or other decentralized systems; and

(vi) Criteria not met: Annual procurement statistics (http://monev.lkpp.go.id and http://report-lpse.lkpp.go.id/v2/beranda) are not complete or reliable in the absence of a central monitoring and evaluation system to capture all procurement in the country; currently only contract award data for procurement carried out through e-procurement system are centrally available. Data on contract awards through e-Catalogue and Direct Appointment (single source) are not available, and for the procurement methods below the aforementioned thresholds are dispersed at the agency level. Furthermore, there are limited data analytics available to assess the performance of the overall public procurement system.

Three of the six criteria for public access to procurement information are met: (i) legal and regulatory framework for procurement; (ii) government procurement plans; and (iii) bidding opportunities. **The score for this dimension is assessed as a "C".**

PI-24.4: Procurement Complaints Management

The detailed procurement complaints resolution mechanism defined in the Perpres No. 54/2010 allows two types of complaints:

a) complaints from the interested parties (applicants/bidders) to the qualification results and award decisions, which may result in suspension of procurement process and recourse to legal action; and
b) complaints from all stakeholders involved and/or interested in the procurement and contract implementation processes that may be submitted at any time. This may not suspend or annul the procurement process and/or contract implementation before a court decision.

Bidders can address their complaints to the agency implementing individual bidding processes within five days of results being published. If not satisfied with the response, bidders can further appeal to the head of the implementing agency within five days. To file an appeal, bidders must submit an objection appeal bond that can be cashed in if the appeal is unsuccessful. At the request of the head of the implementing agency, LKPP may assist in reviewing the appeal, but the decision lies with the implementing agency. With regards to complaints initiated from indications of procedural deviation, i.e., fraud, collusion, nepotism and corruption (KKN), and/or unfair competition, the complainants should submit their complaints for review by either the internal audit unit within the same/other institution and/or LKPP.

Accordingly, the parties involved in the procurement decision are also involved in reviewing complaints from bidders within their respective review/authorization thresholds—Pokja ULP, Contract Commitment Officer (PPK), Budget User/Authorized Budget User (KPA/PA), and the Minister/Chairman of National Agency/Governor/Major/Head of District. There is no independent administrative appeals body and the only recourse available to bidders dissatisfied with the results of their complaints is to take them to court. There is also no requirement in the Perpres to disclose information on the complaints and their results.

The complaints mechanism allows the resolution of appeals by the State Court, an external and independent authority. The review of complaints is not handled by an independent body but at a higher level of authority in the procuring and contracting entities. The reviewing process involved in such complaints is not considered independent. **The procurement complain system does not meet criterion (1) and fully meets criteria (4), (5) and (6). The score for this dimension PI-24.4 is assessed at a "D".**

PI-25: Internal Controls on Non-salary Expenditure

This indicator measures the effectiveness of general internal controls for non-salary expenditures.

Dimension and scoring

Score	Minimum requirements for scores
25.1. Segregation of duties	
A	Appropriate segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down.
B	Segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down for ***most*** key steps while further details may be needed in a few areas.
C	Segregation of duties is prescribed throughout the expenditure process. More precise definition of important responsibilities may be needed.
D	Performance is less than required for a "C" score.
25.2. Effectiveness of expenditure commitment controls	
A	Comprehensive expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations.
B	Expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations for ***most*** types of expenditure.
C	Expenditure commitment control procedures exist that provide partial coverage and are partially effective.
D	Performance is less than required for a "C" score.
25.3. Compliance with payment rules and procedures	
A	***All*** payments are compliant with regular payment procedures. ***All*** exceptions are properly authorized in advance and justified.
B	***Most*** payments are compliant with regular payment procedures. The ***majority*** of exceptions are properly authorized and justified.
C	The ***majority*** of payments are compliant with regular payment procedures. The ***majority*** of exceptions are properly authorized and justified.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-25: Internal controls on non-salary expenditures based on M2 (AV) methodology

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-25	**A**	**A comprehensive set of controls, including segregation of duties, is in place at the central government level and throughout the expenditure process. The functions and accesses are defined in the FMIS (SPAN) integrated budget and Treasury payment system with appropriations and commitment controls. Rules for payments are in compliance.**
PI-25.1: Segregation of duties	A	Definition of levels of authorization are effectively in place and segregation of duties is prescribed throughout the expenditure process managed in the SPAN system.

Indicator/Dimension (number and name)	Score	Brief Justification for Score
PI-25.2: Effectiveness of expenditure commitment controls	A	The central government has comprehensive commitment controls in place at the Spending Unit level and effectively limits commitments to actual cash availability and approved budget (DIPA) ceilings.
PI-25.3: Compliance with payment rules and procedures	A	Based on reports from internal control and external audit reports, all payments comply with rules and procedures. Exceptions are very limited and duly authorized by the MOF.

PI-25.1: Segregation of Duties

Duties in this dimension refer to: (i) authorization; (ii) recording; (iii) custody of assets; and (iv) reconciliation and audit. Based on Article 58 of Treasury Law No. 17/2003, the President as the head of the government is responsible for the establishment of an internal control system to ensure transparent and accountable financial management of budget implementation. Segregation of duties is prescribed in all processes of budget implementation.

Detailed explanation and implementation guidelines, including the roles and responsibilities of budget holders, commitment makers, payment verification staff, treasurers and accounting staff in each ministry, are defined in Decree No. 190/ 2012. Its implementation in general is widely understood and complied with. Authorization to access budget is held by authorized budget holders (KPA), either Echelon 1 or Echelon 2, depending on the size of the ministry. KPA supported by commitment makers execute all transactions. Payment verification staff verify all requests for payment to ensure documentation completeness, budget availability, and compliance with the contract and calculation. Recording of payment transactions is the responsibility of the treasurer, who administers all commitments and the use of funds.

State assets are managed by asset custodians, usually under the secretary general of the ministry responsible for the record of the assets, with the category and codification defined by the MOF. Audit in Indonesia is conducted by the State Audit Agency (BPK) as regulated by Law No. 15/ 2004. **The score for this dimension is assessed as an "A".**

PI-25.2: Effectiveness of Expenditure Commitment Controls

Commitment controls are in place at the Spending Unit level and effectively limit commitments to actual cash availability and approved budget (DIPA) ceilings. The DIPA is issued for each budget holder at the ministry level. Government Regulation No. 45/2013 and Finance Minister Regulation No. 190/2012 describe the authorization rules and approval procedures to be followed by the line ministries to process payments.

DG Treasury, in its effort to strengthen internal controls, introduced a formal commitment control system at the line ministries through the FMIS (SPAN) application. With the SPAN, commitments are recorded in the system before the expenditure is incurred, ensuring adherence to the budget ceiling, reducing the time lags in processing payments and revising budgets, and allowing the strict maintenance of an electronic trail of all modifications to source data.

SPAN is also able to record the committed budget balance to provide better budget control (funds available = budget – encumbrance/commitment – actual). The payment schedule information from the summary of the contract is also linked to the cash plan in the DIPA, such that the available cash balance can always be updated. This SPAN function can also be used for the calculation of carry-forward multi-year contract obligations. **The score for this dimension is assessed as an "A".**

PI-25.3: Compliance with Payment Rules and Procedures

For this review, FY 2015 audit reports of the central government and five major budgetary units were identified as a sample for the assessment: the Ministry of Health (MOH), the Ministry of Education and Culture

(MOEC), the Ministry of Public Works and Housing (MPWH), the Ministry of Energy and Mineral Resources (MEMR), and the Ministry of Finance (MOF).

The central government obtained a qualified opinion for its FY 2015 financial reports from BPK due to matters other than compliance rules and procedures.[26] No issues related to non-compliance with payment rules and procedures were found. Three out of five sampled ministries received an unqualified opinion from BPK in the FY 2015 audited financial statements.

BPK provided a qualified opinion on FY 2015 audited financial statements for the MPWH and the MEMR. These qualifications were mainly due to weaknesses in internal control over inventories and intangible assets in the MPWH, and accounts receivable in the MEMR. In 2016, these qualifications had been addressed and the two ministries received an unqualified opinions.

In sum, exceptions to regular payment procedures can occur and relate to payments carried over to the next fiscal year, and are systematically duly justified and authorized by the relevant authority level of the spending agency, or the MOF if necessary. There are no unjustified or unauthorized payment transactions reported by the MOF's accounting department at the time assessment. **The score for this dimension is assessed as an "A".**

PI-26: Internal Audit

This indicator assesses the standards and procedures applied in internal audit. Under international standards and good practice, an effective internal audit function needs to be in place in all government agencies and subject to a quality assurance process. Internal audit activities should focus on the assessment of the adequacy and effectiveness of internal controls, and adhere to professional standards, including risk assessment techniques.

Dimension and scoring

Score	Minimum requirements for scores
26.1. Coverage of internal audit	
A	Internal audit is operational for ***all*** central government entities.
B	Internal audit is operational for central government entities representing ***most*** total budgeted expenditures and for central government entities collecting ***most*** budgeted government revenue.
C	Internal audit is operational for central government entities representing the ***majority*** of budgeted expenditures and for central government entities collecting the ***majority*** of budgeted government revenue.
D	Performance is less than required for a "C" score.
26.2. Nature of audits and standards applied	
A	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls. A quality assurance process is in place within the internal audit function and audit activities meet professional standards, including focus on high risk areas.
B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls.
C	Internal audit activities are primarily focused on financial compliance.
D	Performance is less than required for a "C" score.

26 These included: uncertainty of investment value in PT PLN, problem with oil price subsidy, incomplete documentation of non-tax account receivable from royalties on mine in the MEMR, incomplete documentation of inventory in the Ministry of Agriculture (MOA), inaccuracy of recording of balance of budget, and insufficient documentation on direct correction of equity.

Score	Minimum requirements for scores
26.3. Implementation of internal audits and reporting	
A	Annual audit programs exist. ***All*** programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
B	Annual audit programs exist. ***Most*** programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
C	Annual audit programs exist. The ***majority*** of programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
D	Performance is less than required for a "C" score.
26.4. Response to internal audits	
A	Management provides a full response to audit recommendations for ***all*** entities audited within 12 months of the report being produced.
B	Management provides a partial response to audit recommendations for ***most*** entities audited within 12 months of the report being produced.
C	Management provides a partial response to audit recommendations for the ***majority*** of entities audited.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-26: Internal audit based on M1 methodology

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-26	**C+**	**Internal audit units are established in all agencies conducting mostly compliance audits. There are national audit standards but quality assurance process is effectively mostly in the MOF and BPKP, and more than 90 percent of internal audit plans are completed for all the sampled agencies. Management response to the internal audit findings is partial and only for the majority of findings, across all sampled entities.**
PI-26.1: Coverage of internal audit	A	Internal audit is operational for all central government entities.
PI-26.2: Nature of audits and standards applied	C	Internal audit activities in general are primarily focused on financial compliance and not on the adequacy and effectiveness of internal control.
PI-26.3: Implementation of internal audits and reporting	A	Annual audit programs exist in all line ministries. Overall, the planned audits are completed and relevant reports distributed to the audited agencies for response and follow-up.
PI-26.4: Response to internal audits	C	Management provides a partial response to audit recommendations for the majority of the entities audited.

As a government institution in charge of administering revenue collection, the MOF considers risk management key to revenue collection and expenditure control. MOF Regulation No. 191/PMK.09/2008 and Government Regulation (PP) No. 60/2008 state the importance of a strong internal control system and instruct all Echelon II units to take responsibility as risk managers to develop and implement a risk management plan for their own organizations. In accordance with the regulations, this responsibility is assigned to each ministry's Directorate of Internal Compliance.

A sampling approach was applied to assess this indicator, using the five major budgetary units, namely the Ministry of Health (MOH), the Ministry of Education and Culture (MOEC), the Ministry of Public Works and Housing (MPWH), the Ministry of Energy and Mineral Resources (MEMR) and the Ministry of Finance (MOF).

PI-26.1: Coverage of Internal Audit

Internal audit is operational in all central government entities. Based on Law No. 39/2008, which regulates the organizational structure of ministries and internal audit units (Inspectors General, or IG), the internal audit unit is identified as one of the components of each organization and responsible for the supervision of all aspects of the duties and functions of a ministry/state institution funded by the national budget. At the national level, BPKP is known as the National Internal Audit Institution and exercises a role of standard-setting and quality control body for the internal audit function at the central government level. All ministries have an IG and extra-budgetary units, or BLU, are within the coverage of the IG of the respective ministry to which the BLU report. In total, there are 13,330 internal auditors in Indonesia,[27] of which 7,035 work for 80 ministries/state institutions at the central government level. The mandate and work of BPKP and all IGs are duly regulated and includes the definition of audit work programs, audit procedures, documentation and reporting standards.

BPKP is responsible for conducting internal audits on the use of state funds. Government Regulation PP No. 60/2008 lays out the internal and institutional audit arrangements in the government. BPKP is responsible for conducting internal audits with respect to accountability for the use of state funds in specific cases, including: (i) activities of a cross-sectoral nature; (ii) activities involving the use of Treasury funds based on a determination by the finance minister as the Chief State Treasurer; and (iii) other activities based on an assignment from the President.

The Internal Auditor Development Center (Pusbin JFA) is a unit under BPKP responsible for monitoring performance and providing accreditation to all government internal auditors in the country. Based on this, it is established that all revenues and expenditures are covered by the internal audit operations in all central government entities.**The score for this dimension is assessed as an "A".**

PI-26.2: Nature of Audits and Standards Applied

The Government Internal Auditor Association (AAIPI) sets standards and ethics. The AAIPI issued internal audit standards, a code of ethics and peer review standards on December 30, 2013. AAIPI's authority and responsibility are stated in Article 53 of PP No. 60/2008. Inspectorates General have a mandate to conduct audits, evaluations, and the review and monitoring of all financial and non-financial operations.[28] The audit standards consist of guidelines that outline basic concepts of internal audit, and general standards that guide IGs in the planning and management of effective internal audit activities. AAIPI standards were prepared based on International Professional Practices Framework (IPPF) issued by the Institute of Internal Audit (IIA). Based on the 2015 reports compiled by the IGs of the MOH, the MOEC, the MPWH, the MEMR and the MOF at the time of the assessment, the nature of the internal audits performed adhered to the standards issued by AAIPI. The table below indicates the nature of audits performed for the selected samples based on the coverage of the reports and the review of the adequacy and effectiveness of internal controls.

Table 38: Nature of Audits 2015[29] (as available in 2017)

Inspector General	Nature of Audits (based on sample of audit reports reviewed)
MOF	100% - all reports focus on adequacy and effectiveness of internal controls.
MOEC	58% - Eight out of 14 reports describe the adequacy and effectiveness of internal controls.
MOH	53% - Eight out of 15 reports mention internal controls.
MEMR	None. All 15 reports focus on financial compliance and do not mention internal controls.
MPWH	89% - Eight out of 9 reports mention internal controls.

27 Based on data received from AAIPI.

28 Article 48 of PP No. 60/ 2008.

29 At the time of the start of the assessment at the end of 2016, all the 2016 internal audit reports were not yet available

From the sample of internal audit reports from 2015 that were available in 2017 and reviewed, only those issued by the MOF focus on the adequacy and effectiveness of internal controls, while the other reports focus mostly on reliability of financial information and compliance with rules and procedures. Reference to the effectiveness of internal controls is not systematic. A quality assurance process is in place. The Quality Assurance Improvement Program (QAIP) covers all government internal audit units, and includes a peer review mechanism to assess the compliance of internal audit operations with internal audit standards and the application of the code of ethics. Among the five selected internal audit units, only the MOF IG report presents an extensive review of internal control effectiveness in the MOF's internal audit practice. Based on a brief review of a few 2016 reports available in 2017, and upon confirmation of the IGs of the ministries in the sample, the conclusions on the 2015 review, can be extended to 2016. **The score for this dimension is assessed as a "C".**

PI-26.3: Implementation of Internal Audits and Reporting

All preparations for annual audit programs (PKPT) start one year prior to, and are finalized before, the fiscal year begins. Every year, IGs and BPKP prepare reports on all audit activities completed during the year by line ministries. The table below shows the reports obtained from all sampled IGs on activities completed for fiscal years 2015 and 2016. The table provides the number of planned and completed audits issued and submitted to the management of the audited entity (Minister level) for follow up actions as required by PP No. 60/2008. Reports are addressed to the audited agencies, as owner of the report, and to BPK as part of their oversight of internal control framework.

Table 39: Number of Audits Implemented in 2015 and 2016

Inspector General	Fiscal Year	Audits Planned	Audits Completed	% Audits Completed
MOF	2015	866	950	110%
	2016	**750**	**868**	**116%**
MOEC	2015	1,127	930	83%
	2016	**912**	**882**	**97%**
MOH	2015	95	180	189%
	2016	**300**	**296**	**99%**
MEMR	2015	669	675	101%
	2016	**269**	**350**	**130%**
MPWH	2015	550	280	51%
	2016	**373**	**304**	**82%**
Total Sample	2015	3,059	2,607	85%
	2016	**2,411**	**2,351**	**98%**

Source: Audited database of respective line ministries.

Based on the evidence from the sampled reports**, the score for this dimension is assessed as an "A".**

PI-26.4: Response to Internal Audits

Following the applicable guidelines, final internal audit reports are presented to the audited agency and a management response is solicited to indicate that a corresponding action plan has been agreed upon and will be followed up. Auditees have to respond to the IG recommendations with the relevant supporting documentation and within the timeframe stated in the report. The MPWH and the MOH have internal regulations that instruct their own departments on providing a response to IG recommendations within 60 days after the issuance of the report. The MEMR regulation requires auditees to implement the relevant action plan within 30 days of receipt of the audit reports.

However, recommended follow-up actions are not necessarily appropriate. All IGs in the sample used a database application for the monitoring of audit follow-up. The application determines the degree of compliance of the auditee with the IG recommendations. Each IG uses a different database application to monitor its own audit follow-up and an evaluation unit within each IG is responsible for recording and updating the information on follow-up audit actions.

The table below indicates the status of response to internal audit findings based on the documentation received.

Table 40: Follow-up on Internal Audit Findings over Past Three Years

Inspector General	Fiscal Year	No. of Findings	No. of Findings Completely Followed Up	No. of Outstanding Findings	% of Response and Follow-up
MOF	2013	2,468	1,848	**620**	**75%**
	2014	1,718	1,318	**400**	**77%**
	2015	2,875	2,125	**750**	**74%**
MOEC	2013	4,112	3,783	**329**	**92%**
	2014	4,239	3,1413	**1,098**	**74%**
	2015	8,897	4,777	**4,120**	**46%**
MOH	2013	5,191	4,628	**563**	**89%**
	2014	520	466	**54**	**90%**
	2015	800	645	**155**	**81%**
MPWH	2013	70	56	**14**	**80%**
	2014	201	145	**56**	**72%**
	2015	419	233	**186**	**55%**
MEMR	2013	1,217	1,146	**71**	**94%**
	2014	1,339	1,201	**138**	**89%**
	2015	1,159	1,001	**158**	**86%**
Total audit reports sampled	2013	13,058	11,461	**1,597**	**88%**
	2014	8,017	6,270	**1,747**	**78%**
	2015	14,267	8,923	**5,344**	**63%**

Source: Audited database of respective line ministries.

Evidence shows that the situation varies from one year to another within the same line ministry and only partial responses were received in the past 12 months. **The score for this dimension is assessed as a "C".**

Pillar Six: Accounting and Reporting

PI-27: Financial Data Integrity

The indicator assesses the reconciliation processes in place for bank accounts, suspense accounts, and advance accounts and how they support or affect the integrity of financial data.

Dimension and scoring

Score	Minimum requirements for scores
27.1. Bank account reconciliation	
A	Bank reconciliation for ***all*** active central government bank accounts takes place at least weekly at aggregate and detailed levels, usually within one week from the end of each week.
B	Bank reconciliation for ***all*** active central government bank accounts takes place at least monthly, usually within 4 weeks from the end of each month.
C	Bank reconciliation for ***all*** active central government bank accounts takes place at least quarterly, usually within 8 weeks from the end of each quarter.
D	Performance is less than required for a "C" score.
27.2. Suspense accounts	
A	Reconciliation of suspense accounts takes place at least monthly, within a month from the end of each month. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
B	Reconciliation of suspense accounts takes place at least quarterly within 2 months from the end of each quarter. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
C	Reconciliation of suspense accounts takes place annually, within 2 months from the end of the year. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
D	Performance is less than required for a "C" score.
27.3. Advance accounts	
A	Reconciliation of advance accounts takes place at least monthly, within a month from the end of each month. ***All*** advance accounts are cleared in a timely way.
B	Reconciliation of advance accounts takes place at least quarterly within 2 months from the end of each quarter. ***Most*** advance accounts are cleared in a timely way.
C	Reconciliation of advance accounts takes place annually, within 2 months from the end of the year. Advance accounts may frequently be cleared with delay.
D	Performance is less than required for a "C" score.
27.4. Financial data integrity processes	
A	Access and changes to records is restricted and recorded, and results in an audit trail. There is an operational body, unit or team in charge of verifying financial data integrity.
B	Access and changes to records is restricted and recorded, and results in an audit trail.
C	Access and changes to records is restricted and recorded.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-27: Financial data integrity (M2 averaging methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-27	**A**	**The introduction of SPAN facilitates the recording, consolidation and reconciliation of all financial transactions in a reliable and timely manner, and imposes discipline in the clearing of suspense accounts by line ministries and agencies.**
PI-27.1: Bank account reconciliation	A	The implementation of the TSA and the use of FMIS (SPAN) produce daily bank reconciliation reports for all active central government bank accounts.
PI-27.2: Suspense accounts	A	Reconciliation of suspense accounts takes place at least monthly between the local treasury office (KPPN) and the spending units of the line ministries. Suspense accounts are cleared in a timely way and no later than at the end of the fiscal year.
PI-27.3: Advance accounts	A	Reconciliation of advance accounts takes place at least monthly between the local treasury office (KPPN) and the spending units of the line ministries. PMK No. 190/2012 regulates that all advance accounts are cleared on a monthly basis, as they have to be reported and cleared before new advances can be authorized. As stipulated by the Procurement Law, the advance on contracts is 10%.
PI-27.4: Financial data integrity processes	A	The use of FMIS (SPAN) has significantly improved financial data integrity. The access and changes to records in SPAN are restricted and recorded with an audit trail. The function is covered by the SPAN team within the DG Treasury system and the internal auditor of the MOF is in charge of verifying financial data integrity of SPAN. Access and users' registration are controlled and identified. At the regional level, access is controlled in 222 locations in Indonesia where spending units from central government are located.

PI-27.1: Bank Account Reconciliation

Bank reconciliation is one of the cash management functionalities in SPAN through which the MOF accesses real-time information on its cash balance and transactions. DG Treasury has access to daily consolidated reports on reconciliation of all bank account balances both for the TSA in the central bank (Bank Indonesia, or BI) and the over 31,000 expenditure accounts of Spending Units in commercial banks. It enables DG Treasury to analyze the cash position and cash flows to support budget financing decisions. Own-source revenue from BLU is not consolidated into the TSA. There are other balances, such as direct grants from development partners, and revenues collected for operating expenditures in the form of contracts, but these are not significant amounts. Article 52 of Finance Minister Regulation No 154/2014 on SPAN refers two different types of bank account reconciliation: an automatic and manual reconciliation. An automatic bank reconciliation is done daily by the SPAN in which each individual bank account balance in BI and the commercial banks will be compared with the SPAN records. Meanwhile, a manual reconciliation is also done on a regular basis by the relevant entities, as a double-check to confirm the automatic results by comparing the hard copy data with SPAN records on a monthly basis.

As regulated under Finance Minister Regulation No. 104/2017 (Article 4), the bank account reconciliations are carried out at the level detailed level of revenues and expenditures within 14 days of each end-of-the-month period. Reconciliations include those of line ministries' spending units' revenue and expenditure accounts with the data recorded in SPAN at respective local treasury offices (KPPNs).

SPAN categorizes transactions from banks' reconciliation reports into matched and unmatched for DG Treasury's clearance. The responsibility still lies with each spending agency, as data owner to ensure that the data in the bank ledgers are properly classified and reconciled. In the case of revenue collection, any discrepancies will have to be reconciled by the data owners (line ministries, DG Tax, DG Customs and Excise and DG Budget) with DG Treasury, and between DG Treasury and Bank Indonesia. This reconciliation take place on a daily basis.

The FMIS (SPAN) enables an automatic daily bank reconciliation for all central government bank accounts at both aggregate and detailed levels. Furthermore, within two weeks of the end of each month, a manual reconciliation is held to confirm the results from the automatic reconciliation. The score for this dimension is assessed as an "A".

PI-27.2: Suspense Accounts

Suspense accounts in the case of central government financial reports are defined by the difference in amount between the accounts recorded by the MOF in SPAN and the line ministries' records. Reconciliation of suspense accounts takes place both in SPAN and manually. For automatic reconciliation, the financial statement electronic reconciliation application (E-*Rekon* LK) generates a daily reconciliation of all suspense accounts and enables DG Treasury to clear all unmatched transactions in accounts with respective entities at the end of each day. Manual reconciliations between the local treasury office (KPPN) and the spending units of line ministries are conducted at least monthly to confirm, or complete the daily reconciliation results. This manual reconciliation process provides an opportunity for the line ministries to confirm the end-of-the-month data before they are used as inputs for developing the consolidated financial statements. Reconciliations facilitate the clearance of suspense accounts in a timely manner and no later than the end of the fiscal year.

The number of suspense accounts has decreased from year to year with the implementation of SPAN and E-*Rekon* LK applications, which enables an automatic daily bank reconciliation for suspense accounts. Furthermore, within two weeks of the end of each month a manual reconciliation between KPPN and spending unit officials is held to clear any suspense accounts in that month. As a result, suspense accounts are no longer considered an issue by the external auditor (BPK) and data issues are generally highlighted in the audited financial report as immaterial. The government's ability to eliminate all suspense accounts in its 2016 financial statements was recognized by BPK as a major achievement and one of the main reasons for the government to be granted an unqualified audit opinion—the first since the beginning of the implementation of PFM reforms in 2004. **The score for this dimension is assessed as an "A".**

PI-27.3: Advance Accounts

Advance accounts are composed of prepaid expenditures and advance payments. With a strict annual budget appropriation and allotment, almost all advance accounts are liquidated by the end of each year, since all commitments are closed at the end of the fiscal period, except for multi-year contracts. Based on PMK No. 190/2012 on Payment Procedures for Annual Budget (APBN) Implementation, Satker at the line ministries/agencies may take an advance for daily operations that cannot be paid by direct payment (bank transfer). However, the cash balance held in each spending unit's petty cash account is relatively small as expenditures are directly paid through the TSA to beneficiaries' accounts. Operational advances follow a revolving procedure, whereby a Satker may request a new advance when it has used and reported 50 percent of the previous advance. However, sanctions will apply for balances maintained pending regularization outside the limits established. Within three months, KPPN will deduct 25 percent of the advance and 50 percent when the Satker does not report within four months. Except for travel and honorarium expenses, the maximum advance payment to one recipient at a time is IDR 50 million, beyond which the Satker needs prior approval from DG Treasury. A Satker may request an additional advance, if required, to be accounted for within one month. Otherwise, KPPN will not approve any additional advances. A Satker is allowed to pay an advance to a third party for services at a maximum of 15 percent for profit organizations, such as contractors, suppliers and consultants, and 20 percent for non-profit organizations, such as CSOs, foundations and universities. The advance will be compensated or deducted from the next payment.

All advance accounts are systematically reconciled as part of the TSA daily reconciliation and the monthly cash reconciliation process. Furthermore, all balances in advance accounts cancelled automatically as part of the closing activity of the accounting periodand the MOF's accounting department data confirms that there are no advance accounts at the end of each fiscal year. **The assigned score for this dimension PI-27.3 is assessed at an "A".**

PI-27.4: Financial Data Integrity Processes

Financial data integrity is guaranteed by the processing and recording of government transactions through the single database in SPAN. The reconciliation mechanism between central and regional DG Treasury offices is now done electronically. Opportunities for discretionary and informal payments, often more common in manual, paper-based systems have also been reduced. SPAN has also reduced leakages due to erroneous payments or over-spending by budget users. Additionally, anew module called the supplier database has been introduced to reduce payment errors to unintended recipients. As a result, manual checks of payments to all suppliers have been replaced by regular system reporting, and as a result fiscal discipline over payments has increased.

Data produced by SPAN are robust and reliable. Any modification to a transaction can only be done by the data originator (data changes at source). The use of FMIS (SPAN) has significantly improved the financial data integrity. Access and changes to the records in SPAN are restricted and recorded with an audit trail. SPAN operations are covered by the SPAN team within the Directorate of Treasury Technology and Information System, while the internal auditor of the MOF is responsible for verifying financial data integrity captured in SPAN. Access and users' registrations are controlled and identified. At the regional level, access is controlled in 222 locations where spending units from the central government are located. The table below shows the increasing number of unqualified audit opinions given to the line ministries in 2016:

Table 41: Audit Opinion Results

Audit Opinion Type	2015	2016
Unqualified	56	74
Qualified	26	8
Adverse	0	0
Disclaimer	4	6
No Audit reports	0	0
Total	85	87

Source: LKPP 2016.

Based on this level of unqualified audits, the assigned score for this dimension is assessed at an "A".

PI-28: In-year Budget Reports

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. Reporting information on budget execution that includes revenue and expenditure data is required to facilitate performance monitoring and support well-informed decisions. In-year budget reports must be consistent with budget coverage and classification to allow the monitoring of budget performance and timely use of corrective measures.

Dimension and scoring

Score	Minimum requirements for scores
28.1. Coverage and comparability of reports	
A	Coverage and classification of data allow direct comparison to the original budget. Information includes ***all*** items of budget estimates. Expenditures made from transfers to de-concentrated units within central government are included in the reports.
B	Coverage and classification of data allow direct comparison to the original budget with partial aggregation. Expenditures made from transfers to de-concentrated units within central government are included in the reports.
C	Coverage and classification of data allow direct comparison to the original budget for the main administrative headings.
D	Performance is less than required for a "C" score.
28.2. Timing of in-year budget reports	
A	Budget execution reports are prepared monthly, and issued within 2 weeks from the end of each month.
B	Budget execution reports are prepared quarterly, and issued within 4 weeks from the end of each quarter.
C	Budget execution reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks from the end of each quarter.
D	Performance is less than required for a "C" score.
28.3. Accuracy of in-year budget reports	
A	There are no material concerns regarding data accuracy. An analysis of the budget execution is provided on at least a half-yearly basis. Information on expenditure is covered at both commitment and payment stages.
B	There may be concerns regarding data accuracy. Data issues are highlighted in the report and the data are consistent and useful for analysis of budget execution. An analysis of the budget execution is provided on at least a half-yearly basis. Expenditure is captured at least at payment stage.
C	There may be concerns regarding data accuracy. Data are useful for analysis of budget execution. Expenditure is captured at least at payment stage.
D	Performance is less than required for a "C" score.

Time period: Last completed fiscal year, 2016

Summary of Scores and Performance for PI-28: In-year budget reports (M1)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-28	**B+**	**In-year budget execution reports are published on the MOF's website in a timely manner and all transactions are captured by SPAN, ensuring reliability of the reporting.**
PI-28.1. Coverage and comparability of reports	A	The central government financial reports (LKPP) produced by SPAN are structured into 12 segments and 62 digits of Chart of Accounts (COA) covering all budget items. This allows direct comparison between realization and original budget. Financial reports produced by SPAN cover all transactions made by central and deconcentrated government units (including Dekon and Tugas Pembantuan) and expenditures made from transfers to subnational governments.

Indicator/Dimension (number and name)	Score	Brief Justification for Score
PI-28.2. Timing of in-year budget reports	B	Monthly reports are extracted from the On-Line Monitoring SPAN (OM-SPAN) application by each line ministry within two weeks of the end of each month; Quarterly reports (spending reviews) are prepared by DG Budget and published with a very detailed analysis of the execution deviation by line ministry (economic classification); on a 6-monthly basis the government submits the accountability report (based on the APBN format) to parliament.
PI-28.3. Accuracy of in-year budget reports	A	There are no material concerns regarding data accuracy of the monthly closure and MOF Inspectorate General regularly reviews the financial accuracy of in-year budget execution reports. Information is covered at both commitment and payment stages.

PI-28.1: Coverage and Comparability of Reports

Article 27 of State Finance Law No. 17/2003 requires the central government to arrange a report on of the first semester budget realization in every fiscal year and the projection for the second semester budget performance. The MOF produces a government report on the first semester budget implementation performance, usually issued every year in July. This report offers a comprehensive analysis on the execution performance based on all budget classifications, including expenditures made by deconcentrated spending units, also known as Dekon at provincial level and *Tugas Pembantuan* at Kabupaten level, and from transfers to subnational governments. The detailed content of the report includes the first semester progress on: macroeconomic assumptions; revenue realization; expenditure (budget absorption) performance by function and line ministry; transfers to subnational governments; and financing and deficit data that are directly compared with the original budget.

The central government can produce in-year budget reports in a timely manner with credible data. SPAN is structured into 12 segments and 62 digits of accounting classification, or Chart of Accounts (COA), to meet central government financial reporting requirements. MOF Regulation No. 214/2013 regulates the detailed COA that is consistently applied throughout the budget formulation, execution and reporting cycle, in order to allow direct comparisons between budget realization and the original budget.

Table 42: Coverage of Financial Reports by Selected Spending Units

No.	Segment	Digit	Description	Reporting Attribute
1	Spending unit	6	Spending unit code	Line ministry, Echelon 1, and attributed spending units
2	KPPN	3	Local treasury payment office (KPPN) code	Code of treasury office where transaction is processed.
3	Account	6	Code of economic classification	Type of expense
4	Program	3+2+2	Line ministry, Echelon 1, and program codes	
5	Output	4+3	Activity, output codes	Activity, function, sub-function, unit of output
6	Funds	1+1+8	Source of funds, withdrawal method, register number codes	(loan/grant/other) Register number
7	Bank	1+4	Type of bank account, number of account and name of bank codes	KPPN code
8	Authority	1	Type of authority (i.e., *Dekon*, TP)	
9	Location	2+2	Provincial, district, municipal code	
10	Budget	1	Budget type code	APBN, DIPA, realization, return, accrual adjustment
11	Intra entity	6	Intra entities code	Due to and due from
12	Reserve	6	Reserve codes	Unutilized for future needs

The assigned score for this dimension is assessed at an "A".

PI-28.2: Timing of In-year Budget Reports

In-year budget execution reports are generated in a timely way and available online, allowing public access to in-year realization reports on a monthly, quarterly and semester basis within one month of the end of the reporting month. DG Treasury has also developed the Online Monitoring SPAN (OM-SPAN) module, a web-based application presenting the in-year budget information data processed by SPAN in a real time. Information from OM-SPAN can be accessed by all spending units, based on their authorized access level, through the internet. Data available from OM-SPAN include: flash report managerial (dashboard), budget allotment ceiling, status of payment request (any approval or rejection due to inadequate ceiling or other administrative non-compliance will be shown), budget realization report/absorption for national total and/or individual ministry, Echelon 1, spending unit detailed by activity, authority, source of funds, regional area of spending, supplier information, and any exception payment reports. OM-SPAN can also provide data on the funds availability or unutilized commitments not yet disbursed. OM-SPAN also provides information on the balance of the state revenue collected in quasi real time. On a quarterly basis, DG Budget published the spending review reports with a detailed analysis of line ministries' deviation in execution at economic classification level. One month after the end of each semester, the Budget accountability report following the structure of the APBN, is sent to Parliament for review. **The assigned score for this dimension is assessed at an "B".**

PI-28.3: Accuracy of In-year Budget Reports

SPAN includes a budget commitment management module and generates information on in-year budget expenditure at both commitment and payment stages. In-year budget reports consolidate all transactions and present accounts closed on a monthly basis by the 13th of the following month. There is no concern regarding data accuracy as most transactions are recorded in real time into SPAN and any adjustment after the closing date must be done through correcting journals. This facilitates the process of preparing annual reports to be audited by the State Audit Agency (BPK). Monthly in-year budget reports data are considered reliable and are consolidated for the production of quarterly, semester and annual reports with a narrative description of the execution trends on main programs and policies..

BPK also conducts audits for selected line ministries for their first semester budget performance. Since 2015, BPK reports have confirmed the absence of material concerns regarding data accuracy of the in-year budget reports produced by SPAN in line ministries' audits report. **The assigned score for this dimension is assessed at an "A".**

PI-29: Annual Financial Reports

This indicator assesses the extent to which financial statements are complete, timely and consistent with the GAAPS.

Score	Minimum requirements for scores
29.1. Completeness of annual financial reports	
A	Financial reports for budgetary central government are prepared annually and are comparable with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations, and are supported by a reconciled cash flow statement.
B	Financial reports for budgetary central government are prepared annually and are comparable with the approved budget. They contain information on at least revenue, expenditure, financial assets, financial liabilities, guarantees, and long-term obligations.
C	Financial reports for budgetary central government are prepared annually, and are comparable with the approved budget. They include information on revenue, expenditure, and cash balances.
D	Performance is less than required for a "C" score.

Score	Minimum requirements for scores
29.2. Submission of reports for external audit	
A	Financial reports for budgetary central government are submitted for external audit within 3 months of the end of the fiscal year.
B	Financial reports for budgetary central government are submitted for external audit within 6 months of the end of the fiscal year.
C	Financial reports for budgetary central government are submitted for external audit within 9 months of the end of the fiscal year.
D	Performance is less than required for a "C" score.
29.3. Accounting standards	
A	Accounting standards applied to ***all*** financial reports are consistent with international standards. ***Most*** international standards have been incorporated into the national standards. Variations between international and national standards are disclosed and any gaps are explained. The standards used in preparing annual financial reports are disclosed in notes to the reports.
B	Accounting standards applied to ***all*** financial reports are consistent with the country's legal framework. The ***majority*** of international standards have been incorporated into the national standards. Variations between international and national standards are disclosed and any gaps are explained. The standards used in preparing annual financial reports are disclosed.
C	Accounting standards applied to ***all*** financial reports are consistent with the country's legal framework and ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed.2
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-29 Annual Financial Reports (M1)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall indicator	**C+**	**Annual financial reports are complete and include information on revenues, expenditures, and financial assets and liabilities, together with long term obligations. They are submitted to BPK within six months of the end of the fiscal year.** **There is no documentation on the alignment with international accounting standards.**
29.1 Completeness of Annual Financial Reports	A	Financial reports for the central government budget are prepared annually and are comparable with the approved budget. The use of the *e-recon* application has improved the comparability of reports.
29.2 Submission of reports for external audit	A	The MOF has submitted the consolidated government financial reports for external audit in the last week of March for the past three years of 2014, 2015 and 2016.
29.3 Accounting Standards	C	While Indonesia's accounting standards are consistent with international standards, there is no explanation and disclosure on any variations and gaps between international and national standards in LKPP. The updated gap analysis has yet to be prepared and published.

There has been an improvement in the quality of the government's annual financial reports (LKPP), shown by the achievement of an unqualified audit opinion from BPK for the first time in 2016. This unqualified opinion is the first such opinion achieved since the first annual financial accountability report was prepared and initiated in 2004. Based on audit results, BPK confirms that LKPP 2016 was presented fairly on all aspects in accordance with Government Accounting Standards (SAP). Results of LKPP 2016 were based on the results of 87 financial statements of ministries/agencies (LKKL) and one State Treasurer Financial Report.

PI-29.1: Completeness of Annual Financial Reports

The government's annual financial report (LKPP) is prepared annually and consists of: (i) budget realization (*realisasi anggaran*) reports; (ii) changes of unspent balance (*perubahan saldo anggaran*); (iii) balance sheets (*neraca*); (iv) operational reports; (v) cash flow *(arus kas)* reports; (vi) changes in equity (*perubahan ekuitas*) reports; and (vii) notes on financial (*catatan atas laporan keuangan*) reports. The budget realization report is comparable to the approved budget, while the balance sheets consist of assets, liabilities and equity. Liabilities include short-term, as well as long-term, liabilities. DG Treasury conducts bank reconciliation through the *e-Rekon* application on a monthly basis and the results are available at http://e-rekon-lk.djpbn.kemenkeu.go.id/login.**The score for this dimension is assessed as an "A".**

PI-29.2: Submission of Reports for External Audit

Based on MOF Regulation PMK 177/2015 regarding the preparation and submission of agencies' financial reports, line ministries should submit financial reports to the MOF for consolidation in February every year. The MOF submits a consolidated report to BPK by an agreed date, which is normally within 90 days of end of the fiscal year. The MOF has submitted the government's LKPP in the last week of March in each of the past three years. The financial reports for fiscal years 2013 through to 2015 were submitted to BPK on March 20, 2014, March 28, 2015, and March 28, 2016, respectively. The financial reports for FY 2016 were submitted to BPK on March 29, 2017. **The score for this dimension is assessed as an "A".**

PI-29.3: Accounting Standards

The government's annual financial report (LKPP) is prepared in accordance with Government Regulation No. 71/2010 regarding Government Accounting Standards (SAP). Since FY 2015, the report has been made on an accrual basis and most international standards have been incorporated into the SAP. The national standards used in preparing the annual financial reports are disclosed. However, variations exist between international and national standards, and are not disclosed in the financial reports as disclosure of these variations in the financial reports is not required by any government regulation. The latest published gap analysis dates from 2007/2008[30]. The government's Accounting Standards Committee has started to prepare a comparative study. Meanwhile, the application of Appendix 1 on the Accrual Accounting of Government Regulation No. 71/2010 on Government Accounting Standards by the MOF when it developed LKPP is clearly disclosed in the summary section of LKPP. **The score for this dimension is assessed as a "C".**

30 At the time the gap analysis was prepared by SECO funded project.

Pillar Seven: External Scrutiny and Audit

PI-30: External Audit

This indicator assesses the characteristics of external audit. Reliable and extensive external audit is an essential requirement for ensuring accountability and creating transparency in the use of public funds.

Dimension and scoring

Score	Minimum requirements for scores
30.1. Audit coverage and standards	
A	Financial reports including revenue, expenditure, assets, and liabilities of ***all*** central government entities have been audited using ISSAIs or consistent national auditing standards during the past three completed fiscal years. The audits have highlighted any relevant material issues and systemic and control risks.
B	Financial reports of central government entities representing ***most*** total expenditures and revenues have been audited using ISSAIs or national auditing standards during the past three completed fiscal years. The audits have highlighted any relevant material issues and systemic and control risks.
C	Financial reports of central government entities representing the ***majority*** of total expenditures and revenues have been audited, using ISSAIs or national auditing standards during the past three completed fiscal years. The audits have highlighted any relevant significant issues.
D	Performance is less than required for a "C" score.
30.2. Submission of audit reports to parliament	
A	Audit reports were submitted to the legislature within three months from receipt of the financial reports by the audit office for the past three completed fiscal years.
B	Audit reports were submitted to the legislature within six months from receipt of the financial reports by the audit office for the past three completed fiscal years.
C	Audit reports were submitted to the legislature within nine months from receipt of the financial reports by the audit office for the past three completed fiscal years.
D	Performance is less than required for a "C" score.
30.3. External audit follow-up	
A	There is clear evidence of effective and timely follow-up by the executive or the audited entity on audits for which follow-up was expected, during the past three completed fiscal years.
B	A formal, comprehensive, and timely response was made by the executive or the audited entity on audits for which follow-up was expected during the past three completed fiscal years.
C	A formal response was made by the executive or the audited entity on audits for which follow up was expected, during the past three completed fiscal years.
D	Performance is less than required for a "C" score.
30.4. Supreme Audit Institution (SAI) independence	
A	The SAI operates independently from the executive with respect to procedures for appointment and removal of the head of the SAI, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAI's budget. This independence is assured by law. The SAI has unrestricted and timely access to records, documentation and information.

	B	The SAI operates independently from the executive with respect to procedures for appointment and removal of the head of the SAI, the planning of audit engagements, and the approval and execution of the SAI's budget. The SAI has unrestricted and timely access to records, documentation and information for ***most*** audited entities.
	C	The SAI operates independently from the executive with respect to the procedures for appointment and removal of the head of the SAI as well as the execution of the SAI's budget. The SAI has unrestricted and timely access to the ***majority*** of the requested records, documentation and information.
	D	Performance is less than required for a C score.

Time period: Last three completed fiscal years, 2014, 2015 and 2016 for 30.1, 30.2, 30.3 and at time of assessment 2017 for 30.4

Summary of Scores and Performance for PI-30: External audit (M1)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-30	**C+**	**National Audit Standards are consistent with ISSAIs and external audit reports are submitted to parliament within three months of their receipt by BPK. A formal response without comprehensive follow-up was issued by the executive, and BPK has direct access to most of the financial information on budget execution.**
PI-30.1. Coverage and comparability of reports	A	Financial reports of all central government entities are audited using national audit standards consistent with ISSAIs.
PI-30.2. Timing of in-year budget reports	A	The external audit reports were submitted to parliament within three months of the receipt of the reports by BPK in 2014, 2015 and 2016.
PI-30.3. Accuracy of in-year budget reports	C	A formal response without comprehensive follow-up was issued by the executive to 2016 BPK's audit report.
PI-30.4. Supreme Audit Institution Independence	B	BPK operates independently of the executive and has access to most of the audited entities except for some restrictions regarding tax and fraud data.

PI-30.1: Audit Coverage and Standards

BPK, as Indonesia's Supreme Audit Institution (SAI), has a mandate to conduct financial audits of all central government entities, as well as local government agencies. BPK has been following national financial audit standards (*Standard Pemeriksaan Keuangan Negara*, or SPKN) since 2007. Over time, BPK has revised and improved the SPKN, which are generally aligned with ISSAIs. BPK recently approved the standards through BPK Decree No. 1/2017 issued on January 6, 2017.

BPK reports cover the annual financial reports (LKPP) and include audit reviews on: (i) the internal control system; (ii) compliance with laws and regulations; and (iii) the status of follow-up audit findings and recommendations. Audit reports have highlighted materials and systemic issues. While BPK expressed a qualified opinion for the government's financial statements for FY 2013 through to FY 2015, it provided an unqualified opinion for the 2016 financial report. BPK's audit contains additional notes, especially on the internal control system, where improvements are required. However, these findings are not material enough for a downgraded audit opinion.**The score for this dimension is assessed as an "A".**

PI-30.2: Submission of Audit Reports to Parliament

Based on Article 17, paragraph 1 in Law No. 15/2004, BPK is required to submit financial audit reports to

parliament within two months of receiving the government's financial reports. The audit reports from BPK have been submitted to parliament in a timely way over the past three years. The government's financial reports were submitted to BPK before March, and BPK submitted its audit reports to parliament before the end of May. Audit reports for FY 2014, 2015 and 2016 were submitted to parliament and the President on May 26, 2015, May 28, 2016 and May 18, 2017, respectively (source from LKPP reports).**The score for this dimension is assessed as an "A".**

PI-30.3: External Audit Follow-up

Article 20, paragraph 3 in Law No. 15/2004 states that the auditee (officer) needs to respond to the follow-up actions stated in BPK audit findings within 60 days. Otherwise, the officer may be subject to administrative sanctions in accordance with the provisions of the law and regulations on personnel. Most agencies submit their formal responses within 60 days. However, these responses are formal responses without comprehensive follow-ups that list the implementation of the recommendations. The agencies' response rate for FY 2014 and FY 2015 was 35 percent and 46.5 percent, respectively. However, the cumulative response rate as of December 31, 2016 was 69 percent. This indicates that it requires more than one year for agencies to follow up on BPK's findings to achieve the rate.

BPK has developed a monitoring system on the follow-up actions (*Sistem Informasi Pemantauan Tindak Lanjut,* or SIPTL). The system provides additional information on the audit follow-up actions. BPK also monitors the status of the follow-up findings and recommendations. Inspectors General (IG) of the line ministries are BPK's partners in the monitoring and coordination of the follow-up status. BPK launched the system on January 6, 2017, and issued BPK Regulation No. 2/2017 on the Monitoring of Audit Follow-up Action. BPK expects that the auditee (officer) response will improve with the use of this system going forward. **The score for this dimension is assessed as a "C".**

PI-30.4: Supreme Audit Institution Independence

Board members of BPK are selected and appointed by parliament. The chairman of the BPK Board is selected by members of the BPK Board within one month of their inauguration by the President. BPK operates independently from the executive to plan and execute audit engagements. However, BPK is not independent of parliament in terms of the selection and appointment of its board members, and political parties may intervene in the selection process through their parliamentary members.

Based on Law No. 15/2006, paragraph 35, BPK has its own budget line in the state budget. BPK submit its budget proposals to Parliament in the annual budget preparation process, following the same procedures as other government agencies as regulated by Law No. 17/2003. The MOF prepares the annual budget to include BPK's, as well as other government agencies', budget proposals. The final budget proposal also takes into account the government's financial capacity. As a result, there is no guarantee that BPK will receive its proposed budget.

BPK has access to all information in government agencies and decides over whether to publish its reports. Based on Article 9, paragraph 1.b. in Law No. 15/2006, BPK may request information and/or documents that must be provided by the auditee (agencies). However, there are other laws (tax and banking laws) that limit its access to tax and banking information. For example, BPK cannot access individual taxpayer and bank customer information, although BPK auditors may be able to gain access to such information through a special waiver from the finance minister. Such a waiver in the form of a letter grants BPK access to information relating to one specific individual taxpayer. **The score for this dimension is assessed as a "B".**

PI-31: Legislative Scrutiny of Audit Reports

This indicator focuses on parliamentary scrutiny of the audited financial reports of the central government, including all line ministries over the last three completed fiscal years. It covers the timeliness and the depth of scrutiny, the issuance of recommendations and the degree of transparency of the scrutiny.

Dimension and scoring

Score	Minimum requirements for scores
31.1. Timing of audit report scrutiny	
A	Scrutiny of audit reports on annual financial reports has been completed by parliament within 3 months of receipt of the reports.
B	Scrutiny of audit reports on annual financial reports has been completed by parliament within 6 months from receipt of the reports.
C	Scrutiny of audit reports on annual financial reports has been completed by parliament within 12 months from receipt of the reports.
D	Performance is less than required for a "C" score.
31.2. Hearings on audit findings	
A	In-depth hearings on key findings of audit reports take place regularly with responsible officers from ***all*** audited entities which received a qualified or adverse audit opinion or a disclaimer.
B	In-depth hearings on key findings of audit reports take place with responsible officers from ***most*** audited entities which received a qualified or adverse audit opinion or a disclaimer.
C	In-depth hearings on key findings of audit reports take place occasionally, covering ***a few*** audited entities or may take place with MOF officials only.
D	Performance is less than required for a "C" score.
31.3. Recommendations on audit by parliament	
A	Parliament issues recommendations on actions to be implemented by the executive and systematically follows up on their implementation.
B	Parliament issues recommendations on actions to be implemented by the executive and follows up on their implementation.
C	Parliament issues recommendations on actions to be implemented by the executive.
D	Performance is less than required for a "C" score.
31.4. Transparency of parliamentary scrutiny of audit reports	
A	All hearings are conducted in public except for strictly limited circumstances such as discussions related to national security or similar sensitive discussions. Committee reports are debated in the full chamber of parliament and published on an official website or by any other means easily accessible to the public.
B	Hearings are conducted in public with ***a few*** exceptions in addition to national security or similar sensitive discussions. Committee reports are provided to the full chamber of parliament and published on an official website or by any other means easily accessible to the public.
C	Committee reports are published on an official website or by any other means easily accessible to the public.
D	Performance is less than required for a "C" score.

Summary of Scores and Performance for PI-31: Parliamentary scrutiny of audit reports (M2 methodology)

Indicator/Dimension (number and name)	Score	Brief Justification for Score
Overall for PI-31	**D+**	**In 2014, the Public Account Committee was abolished. The role of scrutiny of audit reports was thereafter distributed to each of the relevant commissions in parliament, but the effectiveness of parliamentary scrutiny on audit reports beyond LKPP is limited.**
PI-31.1. Timing of Audit report scrutiny	C	Upon submission of audit reports by BPK to parliament, they are distributed to each relevant commission for scrutiny. Discussion on audit reports becomes part of the regular hearing agenda between commissions and their counterpart ministries. The law does not set out a period within which the review process should be completed. Based on a review of the commission hearings schedule, which sampled 28 reports out of 86, the process can take more than six months from receipt of the reports.
PI-31.2. Hearings on audit findings	D	Hearings on key findings of BPK audit reports take place with all responsible officers from all audited entities that receive a qualified or adverse audit opinion or disclaimer. However, the hearings cannot be considered in-depth, as no representatives from BPK are present to explain the observations and findings. The absence of a Public Account Committee also impacts the depth of the hearings.
PI-31.3 Recommendations on audit by parliament	C	Recommendations by the commissions are issued and recorded in the minutes of the hearings, along with points on other matters discussed during the hearings. The commissions do not maintain systematic tracking of the progress of the follow-up on each recommendation.
PI-31.4 Transparency of parliamentary scrutiny of audit reports	C	Parliamentary regulation Article 246 regulates that all parliamentary meetings should be open to the public, unless declared otherwise. Regular hearings between commissions and counterpart ministries are open to the public through parliamentary TV. The minutes are also published on parliament's websites, although not in a timely or regular manner. Given the absence of a Public Account Committee, there is no audit scrutiny report provided to the full assembly of parliament. The minutes of the hearings can be accessed through the following link: http://www.dpr.go.id/akd/index/id/Risalah-Rapat-Komisi-I although these are not updated or systematically followed up.

PI-31.1: Timing of Audit Report Scrutiny

BPK audit reports on the central government's financial statements are submitted to parliament within two months of the unaudited financial statements being issued. Regarding BPK audit reports on line ministries, these are submitted semi-annually, three months after the end of the semester, together with a summary (IHPS). Article 21 in Law No. 15/2004 on State Financial Oversight requires parliament to review the follow-up of BPK's audit report through hearings with the relevant ministries. Prior to 2014, parliament had a Public Account Committee (BAKN) that led this review process. However, with the passing of Law No. 17/2014 on MD3 (the People's Consultative Assembly, the House of Representatives, the Regional Representatives Council, and the Regional Legislative Council) BAKN was abolished. The role of reviewing the follow-up of BPK's audit reports is now distributed among the relevant parliamentary commissions, which conduct scrutiny and discussions on the audit reports as part of their regular hearings schedule with the counterpart ministries Law No. 15/2004 does not set out the period within which the review process should be completed. The audit reports for FY 2014, 2015, and 2016 were submitted to Parliament on October 7th,2015, October 4th 2016, and October 3rd 2017 (source: www.bpk.go.id). Based on the analysis of a sample of 28 reports out of 86 audit reports year 2016 and reporting information on the hearings schedule for relevant commissions throughout the year, the process can take more than six months and less than twelve months from receipt of the reports as they are finalized before the audit reports of the subsequent budget year is received. The results can be extended to the two previous years, as no hearings on previous year's audit reports is conducted after subsequent year audit reports are received. The depth of each hearing may differ depending on the urgency of the issues raised in the audit report and the capacity of each commission. **The score for this dimension is assessed as a "C".**

PI-31.2: Hearings on Audit Findings

With more than 80 audit reports of central government institutions to be discussed, a quality audit report analysis is essential for an effective scrutiny and hearing process. Hearings on key findings of BPK audit reports take place with all responsible officers from all audited entities that receive a qualified or adverse audit opinion or disclaimer. However, these hearings cannot be considered in-depth, as no representatives from BPK are present during the hearings to explain the observations and findings. The lack of a Public Account Committee, or equivalent expertise, impacts the depth of the hearings performed by parliament and the ministries.

A Parliamentary Expert Office (BK-DPR) was established to strengthen the commissions' role in scrutinizing audit reports pursuant Law No. 17/2014 and Presidential Decree No. 27/2015. One of its roles is to provide the commissions with quality audit report analysis as input to the commissions' hearings with their counterpart ministries. BK-DPR is staffed with government employees and professional analysts. As a newly established entity, the structure of BK-DPR was only set up in 2016 and it is recruiting more analysts in 2017. **The score for this dimension is assessed as a "D".**

PI-31.3: Recommendations on Audit by Parliament

Recommendations by the commissions are issued and recorded in the minutes of the hearings, along with items on other matters discussed during the hearings. The commissions do not maintain systematic tracking of the progress in addressing the follow-up to each recommendation.**The score for this dimension is assessed as a "C".**

PI-31.4: Transparency of Parliamentary Scrutiny of Audit Reports

Parliamentary regulation Article 246 regulates that all parliamentary meetings should be open to the public, unless declared otherwise. Regular hearings between commissions and counterpart ministries are open to the public through parliamentary TV. The minutes are also published on parliamentary websites, although this is not done in a timely or regular manner. With the absence of a Public Account Committee, there is no audit scrutiny report provided to the full assembly of parliament. Minutes of the hearings can be accessed through the following link: http://www.dpr.go.id/akd/index/id/Risalah-Rapat-Komisi-I although this website is not updated and not systematically followed up. **The score for this dimension is assessed as a "C".**

4. Conclusions of the Analysis of PFM Systems

4.1 Integrated Assessment of PFM Performance

The findings of the 2016 PEFA assessment report are summarized below for each of the seven pillars of PFM performance that structure the PEFA framework, with particular attention given to the strengths and weaknesses that affect the achievement of the expected budgetary outcomes.

Budget reliability (PI-1 to PI-3)

Budget reliability is a critical issue in Indonesia's PFM systems. The extent to which the government budget is realistic and implemented as intended, and therefore useful for policy implementation, is formally measured by comparing actual revenues and expenditures with the original budget. The performance assessment on the indicators in the context of Indonesia, with important deviations from original budget, reflects the GOI's ability and flexibility to steer expenditures during implementation in order to adapt to policy adjustments and maintain a strong aggregate fiscal discipline, driven by strong fiscal rules and scrutiny over contingent liabilities. The annual state budget (APBN) can therefore undergo significant changes during the implementation phase, both at the administrative and economic category levels.

This also reflects the ability of, and flexibility granted to, the MOF to apply strict fiscal rules and achieve aggregate fiscal discipline. In this regard, the revised budget is the key process through which the government can reformulate and adjust the budget to the actual revenue level and related policy decisions throughout the execution, and is the reference for the government's execution performance. It derives from the perception by the government of budget credibility as the capacity to adjust the spending level to the actual fiscal outturn during execution and a tool to guarantee fiscal sustainability. It also follows a formal process of budget revision endorsed by parliament (APBN-P), or even subsequently through a presidential decision. As a result, the contingency reserve in the budget is not high and is reallocated to the benefitting agency, which is good international practice.

The low scores on expenditure and revenue outturns can also be attributed to the change of government in 2015 and the necessary policy shifts from fuel subsidies to infrastructure spending needed to adopt the new government agenda. They illustrate, however, another systemic tendency by the government to build a political consensus around, and include overly optimistic revenue forecasts in, the budget, only to then impose significant reallocations as corrective measures or policy adjustments. Furthermore, by setting unrealistic revenue collection targets, for example on VAT, the government undermines its capacity to produce robust macroeconomic and fiscal forecasts (as reflected under PI-14), and emphasizes the perception that its revenue mobilization capacity is weak. The variance in the composition of revenue reveals a sharp decline in the natural resource-based revenue in the period and unrealistic "revenue targets" across all major taxes. Systemic over-estimation of revenue forecasts or unreliable forecasting models have a double-negative impact, as they justify the budget adjustment but also emphasize the challenge of revenue mobilization and low revenue-collection performance (PI-19). In this sense, the tax administration reform agenda has become a key priority of the government agenda, as described under PI-19, and triggered measures such as the tax amnesty program in 2016—a drastic corrective measure to fill the tax revenue gap.

Furthermore, it affects the credibility of the original budget formulation process—a complex but timely and participatory top-down and bottom-up consultation exercise vetted by parliament (PI-17 and PI-18). It has an impact on the line ministries' capacity to plan and deliver the effective provision of services. The process is fairly transparent and line ministries can sometimes select the budget items to postpone or cancel, through the so-called self-blocking process. But it can have a negative effect on the execution capacity when the line ministries cannot absorb the new allocations for infrastructure spending a few months before the end of the fiscal year, and do not achieve the expected results. Furthermore, it has an impact on the final alignment of the budget to the strategic planning and medium-term projections, on funding predictability and, ultimately, on the quality of spending. As the performance information for the budget is not entirely reliable (PI-8), and the accountability of these policy decisions is an issue, it reinforces the lack of transparency in the budget documentation (PI-5).

The recent changes in institutional arrangements to strengthen the alignment of the planning and budgeting processes are key to the improvement of budget credibility.

Transparency of Public Finances (PI-4 to PI-9)

Indonesia PFM systems produce extensive information on the solid performance on fiscal transparency and comprehensiveness of the budget, but information on performance management needs improvement. Indicators under this pillar demonstrate Indonesia's strong performance in fiscal transparency and exhibit a very reasonable alignment with international best practices at the central government level. Public disclosure of information on PFM is necessary to ensure that government operations are undertaken within the agreed government policy framework and according to adequate implementation and reporting arrangements. Transparency is also a critical feature of the government's willingness to facilitate scrutiny of government policies and programs by citizens.

Budget classification is aligned to international standards (PI-4), budget documentation is comprehensive (PI-5), and reporting covers all central government revenue and expenditure with insignificant exceptions (PI-6). Tracking of expenditure is allowed by the three classification levels, the economic budget classification is aligned to the GFS classification and the program classification can be reconciled with the UN/IMF COFOG nomenclature (PI-4). The Chart of Accounts is based on accrual accounting standards, which support a robust and comprehensive reporting system and contribute toward the effectiveness of the Treasury Single Account (TSA) management system facilitated by the roll-out of the FMIS SPAN in 2015 (PI-27). The budget documentation sent to parliament with the draft budget is sufficiently comprehensive to support effective decision-making and ex-ante parliament scrutiny (PI-5)

Key fiscal information is accessible to the public in a comprehensive and timely manner and is published on the MOF website. However, the presentation of new budget policy decisions and their respective budgetary impact and major infrastructure projects should be included to support fiscal discipline and facilitate strategic allocation of resources (PI-5). Indonesia has no definition of tax expenditures (PI-9). The inter-government fiscal transfer system lacks predictability and is still not fully transparent (PI-7), undermining the quality of local spending. For example, the underlying weight and data of the DAU formula is only made available to subnational governments after the allocations have been made. Earlier confirmation of the ceilings of allocations in the budget cycle of major transfers (DAU, DAK) would facilitate the planning process at the subnational level.

Moreover, the budget information is too extensive and detailed to provide a clear, consistent and complete picture of resources allocated to the line ministries for the provision of goods and services, or to allow effective monitoring of the achievement of targets and outcomes. Performance information on service delivery is formally available at the planning (RKP) and reporting stage (LAKIP), but requires further standardization at output level and harmonization to promote informed policy decisions and to drive a proper accountability process on the outcome of financial execution through delivery of public services (PI-8). This has an impact on the quality of the strategic plans and medium-term projections, which in turn hampers the alignment of budget allocations to sector strategies (MTEF) as reflected in PI-16. The new Government Regulation No.17/2017 reflects the government's intention to tackle this issue at the institutional level. Applications developed by Bappenas and now approved by DG Budget should help to rationalize the amount and quality of information produced by line ministries and support an effective reporting on service delivery. The integration of the line ministries' reporting processes and the creation of interfaces between all the existing platforms would improve the quality, timeliness and usefulness of the reporting functions at all level and is not a challenge in Indonesia's ICT-friendly public administration. It would also support overall financial accountability. The available internal and external reporting on line ministries' performance and execution at the subnational level needs to be made more accessible through monthly budget execution reports (PI-28) published (PI-8, PI-9) and help to serve legislative scrutiny (PI-31.1).

Management of Assets and Liabilities (PI-10 to PI-13)

Indonesia's arrangements for the effective management of assets and liabilities are generally in line with international standards, with some deficiencies that can be addressed. This pillar was introduced for the first time in the PEFA framework 2016. Effective management of assets and liabilities ensures that: (i) fiscal risks are adequately identified, monitored and mitigated in a timely and appropriate manner; (ii) public investments respond to infrastructure needs, including maintenance costs, and provide value for money; (iii) financial investments offer appropriate returns, assets are recorded consistently, and rules for asset transfers and disposal are followed; and (iv) the debt portfolio is managed based on a sustainable debt strategy minimizing service costs.

Fiscal risks to the central government budget are identified and disclosed in great depth in the notes to the financial statement and the budget (PI-10). However, only some of the proposed changes in revenue and expenditure policy for the budget year are disclosed, and the fiscal impact is not systematically included. Fiscal risks related to SOEs' operations are monitored. SOEs report on a quarterly basis to the MOSOE and send their audited financial statements to the MOF within six months. Contingent liabilities are identified and the 2016 published budget financial note provides a clear and comprehensive overview of the exposure to all significant risks, including the fiscal impact arising from most macro and micro risk factors, and corresponding mitigation proposals. Control over subnational governments' risks is improving**.** By September 2016, 100 percent of districts and provinces submitted their budget realization reports for FY 2015, of which 25 percent had been audited by BPK. Following receipt of the reports, DG Fiscal Balance published a summary of the budget realization reports for individual subnational governments on its website. However, the two institutions monitoring subnational government revenues, expenditures and debt, namely the MOF and MOHA, do not publish subnational government reports in a timely and synchronized manner.

Debt sustainability is monitored under the MOF's strategic framework for debt management (PI-13) and the MOF prepares a Medium-Term Debt Strategy (MTDS) document covering a four-year period (the latest one covers the period until 2017), an Annual Borrowing Plan (ABP) submitted to parliament as part of the budget process, and an annual financial note that updates aspects of the MTDS. These documents are regularly updated and publicly available, even if not on a rolling basis.

The implementation of the government's ambitious and greatly needed infrastructure development program is not sufficiently supported by the current Public Investment Management framework (PI-11). Upstream, the planning capacity is limited, and pre-feasibility and selection criteria are not systematically applied. Only 40 percent of the major capital investment projects financed through the national and regional budgets APBN or APBD (all presidential priority projects supported by the Committee for Acceleration of Priority Infrastructure Delivery, or KPPIP) are prepared with sufficient technical capacity and resources at the design and implementation stages. The management of public investments is decentralized to the line ministries with no unified guidelines. Meanwhile, downstream, a consolidated monitoring of decentralized implementation is lacking and processes for the costing, quality assurance and reporting on value-for-money (VFM) and fiduciary integrity are not harmonized at the central government level. Project selection involves Bappenas and the MOF mostly on budgetary criteria, and project monitoring is devolved to the implementing agency. Recent government efforts to resolve the infrastructure spending gap at the institutional level and focus on financing national priorities through an ad-hoc debottlenecking structure (KPPIP) have yielded concrete results, particularly in launching a PPP pipeline for major projects, but the impact on state-budget-financed projects has been mixed and not consolidated. Investment monitoring requires detailed technical guidelines to be developed, while the institutional roles and functions of Bappenas, KPPIP and the MPWH in the public investment management cycle could be rationalized further.

Furthermore, public asset management (PI-12) also indicates a mixed performance on the accounting and reporting of public assets. For the first time ever, in 2016 BPK—Indonesia's supreme audit institution (SAI) in charge of the external audit—issued an unqualified opinion at the central government level. However, reports and monitoring by the holding line ministries and agencies are not available outside the aggregate data in the central government's balance sheet. Monitoring of the transfer and disposal of assets is defined through legislation, but controls over, and reporting of, asset registers and inventories are not systematic.

Policy-based fiscal strategy (PI-14 to PI-18)

The fiscal framework for budget management in Indonesia is strong, based on solid macroeconomic and fiscal forecasting capacity, and is detailed in the budget documentation. The government complies with international best practice, and has established modelling instruments and fiscal rules that support a sustainable fiscal strategy (PI-15). The MTFF provides a medium-term approach with forward estimates and fiscal outcomes for the past period and follows the fiscal rules on the total annual budget deficit, set at a maximum 3 percent of GDP and the outstanding (foreign and domestic) debt at not more than 60 percent of GDP (PI-16). However, the possible scenarios used for fiscal projections in fiscal planning and budgeting are not published. The budget preparation process is clearly defined, planned and implemented in a timely and participatory manner (PI-17). The budget calendar is detailed and strictly adhered to, and provides the budgetary units with approved expenditure ceilings before their own budgeting process starts so that they can set their priorities.

Line ministries are tasked to prepare their budgets in line with a complex medium-term strategic framework, cascading priorities from the overall five-year strategic plan (RPJMN) to the annual line ministry plan (RKA). Also, the MTEF prepared on a sectoral basis with linkage to the estimates in the MTFF is not fully operational**.** As a result, the medium-term ceilings are defined for the subsequent years but only for reference purposes and are subject to changes in the fiscal or sectoral policies, or adjustment of the calculation parameters. All the proposed changes in expenditure policies are not costed for their fiscal impact on the budget. As a result, forecasts fail to describe the linkage with previous years' estimates (PI-16), with a range of scenarios to describe the government's risk management strategy and the fiscal impact of new budget policy proposals (PI-15). This undermines the reliability of the approved original budget as an instrument to measure the government's performance on delivering policy priorities (PI-8) and paves the way for significant budget adjustments during execution (PI-21).

The scope and relevance of the ex-ante parliamentary scrutiny over the budget formulation has improved (PI-18) and is expected to be further enhanced by the ongoing establishment of an experts' committee to provide advice during the budget review process. Parliament has between 8 and 14 weeks to review the comprehensive budget proposal (1,200 pages) including fiscal policies, the fiscal framework and medium-term priorities, with detailed revenue and expenditure estimates. Hearings in commissions are public. Nevertheless, strict rules have been applied for budget negotiations and adjustments can be made only at the program level since 2013. All budgets have been approved before the beginning of the new financial year, even in 2015, the year of the presidential election. By and large, annual budgets are consistent on a year-to-year basis, but subject to policy changes and mid-year revised revenue estimates and revenue mobilization performance review (PI-3).

Predictability in Budget Execution (PI-19 to PI-26)

Predictable and controlled budget execution is necessary to ensure that revenue is collected, and resources are allocated and used as intended by the government and approved by parliament. In general, control over budget execution in Indonesia is well regulated, supported by automated internal control procedures and a well-functioning FMIS (SPAN). Revenue administration (PI-19) in Indonesia is an area where alignment to international best practice is particularly needed and the government has launched an ambitious reform of paramount importance to sustain economic growth and development goals. A tax reform team (*Tim Reformasi Pajak*) was established in December 2016 to oversee the entire tax administration and policy reform program with an ambitious goal of increasing Indonesia's tax-to-GDP ratio from 10.4 percent in 2016 to 16 percent by 2019. In tax administration (representing about 70 percent of revenues), a complex and extensive tax regulatory framework notwithstanding, taxpayers have access to timely information regarding their rights and obligations for filing claims, including in remote areas. The recent tax amnesty program has a revenue target of IDR 165 trillion and the total revenue collected was IDR 135 trillion, with IDR 4,881 trillion of total assets declared. Tax compliance still needs to improve, and a comprehensive and targeted compliance risk management plan has recently been piloted to target the large taxpayers' segment and major taxes across all tax components. Tax audits follow a formal compliance risk assessment, and are managed and reported at tax offices against the targets. The monitoring and the ageing of arrears is complex due to the definition of collectability of tax obligations, and a significant amount of uncollectible tax debts have to be written off. Formal alignment to international standards in the customs administration started early and Indonesia has already adopted major internationally recognized practices.

Accounting and reporting for revenue is facilitated by the implementation of the integrated treasury cash and expenditure management function on the FMIS/SPAN platform. The TSA system centralizes most of the resources collected by the central government and supports daily consolidation of cash positions, including all revenue collections (PI-20). The Treasury manages all payments against hard commitment ceilings defined from the approved state budget (PI-21) and has control over expenditure arrears. The central government agencies can commit funds in advance on the FMIS, but significant in-year budget adjustments have an impact on the predictability of funding and potentially significant implications for the execution of programs.

Overall, expenditure control is guaranteed through the budget allotment (DIPA), commitment control systems and disbursement rules. As a result, the amount of arrears or accounts payables is not an issue (PI-22).

Payroll and procurement functions, and related internal controls, are fully decentralized to the line ministries and suffer from a lack of integration and consolidation of information systems. Payroll management (PI-23), on the one hand, suffers from a lack of integration of the payroll system from the MOF with the line ministries' GPP Satker applications. Salaries and wages to employees are disbursed through TSA and FMIS, with the personnel records held by each line ministry and controlled through the database of the civil service agency, BKN. Reconciliation between the three systems is undertaken manually and depends on each line ministry. Payroll audits are covered by the external audits of BPK and no systemic issues have been reported.

Procurement systems (PI-24), on the other hand, have improved significantly, but still suffer from a lack of central monitoring and reporting. Most of the procurement operations are managed through e-procurement but this does not include all contracts. LKPP, the national procurement agency, is responsible for the integration of data, and the consolidation of reliable and useful information on procurement processes. Competitive procurement methods are estimated to cover 70 percent of the total contracting value. The indicator is affected by the absence of an independent administrative complaints mechanism or appeals process with a specialized court to settle disputes efficiently. Data on single-source procurement operations, the resolution of complaints and procurement statistics are not published.

The internal control framework is strictly defined with clear segregation of duties and formal authorization levels, and expenditure commitment and payment controls are effectively in place under SPAN (PI-25). Overall access and adjustments to the records related to the budget, budget execution, accounting and payment information under the central government are restricted (PI-27), and an access print is kept for audit purposes and supported by an effective internal control framework for the segregation of duties. Bank reconciliation mechanisms are in place for all the accounts managed by the Treasury and commercial banks with public accounts. Reconciliation of suspense accounts and advance accounts are performed monthly and cleared at the end of the fiscal year.

The internal audit function, through the Inspectorate General (IG) services, is effectively in place in all spending agencies under the authority of the respective minister, covering 100 percent of government expenditures and revenues, and supported by BPKP, as the government's internal audit institution (PI-26). However, the capacity and therefore the effectiveness of the internal audit function is still limited and mostly devoted to compliance-related checks. Internal audit plans and reports are implemented, but findings are not followed up in a consistent and effective manner (PI-26). BPKP has developed a tool to measure the depth and maturity of the internal control implementation at the public sector level (implementation level of internal control with Level 5 as the most comprehensive implementation of internal control). From a total of 628 IGs and local inspectors (LIs) in the country, 328 are in Level 2 and 26 are in Level 3 as of 2016.

Fiscal and budget accounting and reporting are areas of major strength (PI-29). Financial data integrity and accounts reconciliation are aligned to the international standards, facilitated by the adoption of accrual accounting, supported by SPAN, facilitated by a consistent CoA aligned to the IPSAS. Although accounting standards are consistent with the international IPSAS, no disclosure of alignment and variations is available. This work should be undertaken soon.

In-year and annual budget reporting is effective (PI-28). Quarterly reports with detailed budget performance information are published and the annual financial statement are prepared, published and audited timely within six months of the end of the fiscal year. The government received an unqualified opinion from the external audit agency, BPK, for the first time in 2016.

External Scrutiny an Audit (PI-30 and PI-31)

Effective external audit and scrutiny by parliament are key to the government's accountability over fiscal and expenditure policies, and ultimately the achievement of public policies using public resources. This area reveals a mixed oversight performance between the external audit function and parliament on ex-post budget scrutiny. BPK, as Indonesia's SAI, has constitutional independence from the executive and complete operational independence. Its mandate is to conduct financial audits of all central government entities, as well as local government agencies. The line ministries' execution is audited separately and audit opinions consolidated in BPK public reports, and published as a consolidated report. However, the response rate by the government to audit recommendations is low (less than 50 percent) and not monitored on an annual basis. A new system was established in 2017 to monitor follow-up on audit findings and recommendations.

Parliamentary scrutiny on the follow-up to budget execution audits is less effective than the ex-ante budget review. Hearings are often not held with the authorities of the agencies concerned and no conclusions on the audit recommendations are issued. Given the lack of comprehensive, transparent and effective follow-up on external audit and budget reports, parliamentary scrutiny cannot be deemed effective or conducive to transparent accountability.

4.2 Effectiveness of the Internal Control Framework

The MOF, as the national custodian of public funds, has continuously sought to build a strong internal control system in the use of public funds. The integration of financial systems under the Budget and Treasury Management System has helped to formulate rules and regulations over all aspects of public management, and also in devising frameworks for monitoring and reporting on the use of public resources.

Overall, the internal control framework of the public spending entities in Indonesia is now in place and aligned with the five components of internal control from the COSO framework (control environment, risks assessment, control activities, communication and information, and monitoring). Internal audit has been institutionalized and expanded across all government-funded agencies and is supported by the government's national internal audit institution, BPKP. Detailed findings concerning the main elements of the five internal control components are summarized in Annex 2. The table also highlights any gaps in the coverage of the control components by the assessed internal control system. The assessment of the indicators PI-25 (internal control for non-salary expenditures) and PI- 26 (internal audit), and taking into account PI-30 (external audit), the internal control function is adequately defined in the legal regulatory framework, mostly, and a reliable FMIS, but not sufficiently integrated in the PFM systems decentralized at the line ministry level.

A strong internal control system is integral to promoting the three principles of transparency, accountability and effectiveness. The effectiveness of an internal control framework plays a vital role in addressing risks and providing reasonable assurance that the spending entities meet the four objectives of internal control: (i) executing orderly, ethical, economical, efficient and effective operations; (ii) fulfilling accountability obligations; (iii) complying with applicable laws and regulations; and (iv) safeguarding public resources against loss, misuse and damage. The international standard (ISSAI GOV 9100, Guidelines for Internal Control for the Public Sector, issued by the International Organization of Supreme Audit Institutions) defines the internal control framework around five control components, whose characteristics will be described in the context of Indonesian public sector to assess the effectiveness of the internal control framework in line with Annex 2.

The control environment component is based on the Methodological Recommendations for Internal Control (Government Regulation PP No. 60/2008) that require all spending entities to use the COSO Integrated Internal Control Framework for setting up and strengthening their internal controls. The methodological recommendations are based on, and in line with, COSO and INTOSAI standards. BPKP was appointed as the agency responsible to assist all government institutions at the central and local levels in the implementation of PP No. 60/2008 and perform an assessment of the maturity of the internal audit function. The current implementation guidelines, including roles and responsibilities of budget holders, commitment makers, payment verification staff, treasurers and accounting staff in each ministry, can be seen in MOF Decree No. 190/ 2012.

Furthermore, Article 4 of PP No. 60/2008 lays out the requirements for ministers/heads of institutions to create and maintain an environment that promotes positive and conducive behavior in implementing internal controls in his/her working environment through: (i) upholding integrity and ethical behavior; (ii) committing to competency; (iii) providing positive leadership; (iv) establishing an organizational structure that fulfills the needs; (v) providing appropriate delegation of authority and responsibility; (vi) formulating and implementing a dynamic human resource development program; (vii) facilitating an effective role of the government's internal auditor; and (viii) creating a positive working relationship with other government institutions.

The strong legalistic and compliance culture of public administration promotes a vertical approach to authority and hierarchy, and places most of the responsibility to "set the tone at the top" and display the professional integrity and ethical values to senior management. The operating style of each ministry and institution depends largely upon the latter's supportive attitude toward internal control, commitment to competence and accountability, and human resource management policies that penalize misbehavior.

The organizational structure to support internal control and good governance is the institutionalization of an internal audit function that is independent from management, reports to the highest authority level and is reviewed by an external oversight institution. BPKP initiated an external assessment following the Internal Audit Capability Model (IA-CM) and Quality Assurance Improvement Program (QAIP) by the Institute of Internal Audit (IIA) in April 2015. The objective of the assessments was to produce an analysis that could be used to develop a coherent program for the institutional strengthening of BPKP, and that could ultimately be used to improve internal audit nationwide. The report pointed out that three areas—Professional Practices, Organizational Relationship and Culture, and Governance Structure—needed to be improved. The QAIP evaluation indicated that BPKP partially conformed to the IIA's International Professional Practices Framework (IPPF). The report provided two key recommendations: (i) BPKP needs to address strategic and overall issues relating to governance, risk management and control processes in cross-sectoral and government-wide programs that are of concern to the President and the wider public; and (ii) BPKP needs to augment its auditors' capabilities in the areas of risk-awareness and governance, as well as in IT, and encourage them to become more outward-looking and adopt forward-thinking strategies. In 2016, BPKP initiated guidelines (PERKA No. 4/2016) to assess the level of internal control implementation across all government institutions nationwide, measuring the internal control maturity across all government agencies and defining a roadmap for improvement. The guidelines take into consideration PP No. 60/ 2008 and the guidelines from both the IIA and the GAO. As per 2017, most central government units have attained Level 3. These results are in line with the mixed scores under PI-26, revealing that internal audit (IG) entities functioning across all government are mostly covering financial compliance checks and that management follow-up on internal audit reports is limited.

The risk assessment component refers to risk-based approaches and the use of risk management methods to improve the effectiveness of internal control, such as for example in the definition and implementation of audits in Tax and Internal Audit Planning (PI-19, PI-26). Government Regulation No. 60/2008 indicates that ministers/heads of government institutions are required to conduct risk assessments. These risk assessments should consist of: (i) an identification of risks; and (ii) risk analysis. Furthermore, PMK No. 191/PMK.08/2008, a MOF regulation that assigned one Echelon 2 unit in each Directorate General to take responsibility as risk owners in their own organization, by developing and implementing a risk management plan. In addition, PER-688/K/D4/2012 stipulates that identified risks should be categorized based on their operational level risk assessment. The criteria include a decision on acceptable and tolerable risk levels.

The concept of risk assessment is widely integrated into the national standards used for the implementation of audit functions, and formally aligned to international standards. However, scores relating to audit standards for the internal audit (PI-26) and external audit (PI-30) imply that the potential for the internal audit departments to support effectively internal control over budget execution is high, but requires further capacity-building and certification efforts. In all central government institutions, internal audit departments are in principle responsible for assessing the strengths of the internal control systems and procedures. In theory, internal audit departments, namely Inspectorates General, or IGs' audit plans are defined using a risk-based approach and performance audits are also part of their mandate. However, they tend to perform mostly financial and operational compliance checks focusing on the compliance of transactions and activities with laws, regulations and procedures. Apart from the MOF and MOPW, few internal audit unit reports sampled under PI-26 even mention internal controls.

The tax administration is piloting an integrated risk-based Compliance Improvement Plan but has not fully implemented a structured and systematic risk assessment process for assessing, ranking and quantifying taxpayers' compliance risks. The application of risk criteria is conditioned by the access to reliable and comprehensive data from internal and external sources through a proper tax information management system, which has yet to be developed. In addition**,** the low score on Economic Analysis of Investment Proposals (PI-11) reveals that risks involved in the implementation of capital investment projects are not evaluated through a systematic prefeasibility study of technical, financial, economic, environmental, institutional and social impact review before they are selected.

Control activities applied to the PFM cycle are assessed through various PEFA indicators. The maximum scores in all dimensions of PI-25 reflect the effective assignment of clear roles and responsibilities to employees and that segregation of duties is prescribed throughout the expenditure process. Inside public entities, the internal control function can be characterized as vertically centralized and highly regulated, to the point of leading to legalistic complexity. The directors (Echelons 1 and 2) of budget entities and accounting departments play a major role in the internal control over the systems, procedures and transactions. The SPAN FMIS also guarantees that commitments and payments are issued when there is clear assurance of the legality of commitments and payments, and exceptions are properly authorized in advance and justified.

Controls in the procurement area are currently less effective. PI-24 scores reveal that only about 70 percent of the contracts in value can be tracked as being awarded competitively, and public access to procurement information is restricted for the contract award information, data on the resolution of complaints and procurement statistics. These issues are mostly related to the lack of integration of the procurement database and data outside e-procurement, and should be resolved soon with the expansion of the coverage of SPSE. The review of the complaints mechanisms is not independent from the parties involved in the procurement process until the appeal stage.

The performance of the control activities by revenue-collecting agencies shows a mixed picture under PI-19. DG Tax audits are based on formal compliance improvement targets. However, there is not yet a reliable and comprehensive and consolidated compliance improvement plan to set targets and measure results at the central level, and audit cases are selected by regional and local tax offices and not through the automated system controlled at central level. The high-level political and policy agenda to improve revenue collection (PI-3) led to an acceleration of initiatives to resolve the tax gap and should lead to effective improvement. DG Customs undertakes targeted audits and fraud investigations, and has integrated most international standards for Customs operations and processes. Its control activities are assessed as mostly standardized and effective.

Financial data integrity processes are assessed as very effective under PI-27. Bank reconciliations for all active central government bank accounts take place at least on a daily basis, at aggregate and detailed levels. Suspense account reconciliations are undertaken and monitored on a daily basis and suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.

Payroll controls are assessed as fairly effective (PI-23). The decentralized nature of payroll management means there could be considerable variations in performance, and the integration of payroll and personnel records is lacking. However, changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. Retroactive adjustments are rare, and usually done within the next month's payroll. Sufficient controls exist to ensure integrity of the payroll data and there are no external audit concerns about payroll at the central level.

The information and communication component is fully supported by the IFMIS (SPAN) application implemented by DG Treasury. The SPAN system allows for a decentralized internal control system, with controls on detailed budget line items and transactions in the budget devolved to line ministries. Commitments or payments of a budget spending entity are recorded in SPAN based on the approved budget ceilings (DIPA) and do not require the prior approval of DG Treasury. With the SPAN platform, commitments are recorded in the system before the expenditure can be incurred, thereby ensuring adherence to budget ceilings, reducing time lags in processing payments and revising budgets, and maintaining an electronic trail of all modifications to source data. As a result, the performance for indicators for accounting and reporting systems and processes is assessed as high and facilitate the relevant monitoring activities throughout the execution cycle.

Monitoring of the internal controls system is based on the solid architecture of regulations and automated information system.

The implementation of internal audits and reporting are assessed as effective under PI-26. Ninety-eight percent of the audit plans of the sampled ministries have been implemented. The internal audit checks are only partially risk-based. However, the total amount of infringements of rules involving losses of public funds is stated in each external audit report and, in cases of irregularities and non-compliance with rules, plans and procedures, BPKP has correctional powers. In January 2017, the MOF issued PMK No. 09/2017, which provides guidelines for the implementation, assessment and review of Internal Control over the Central Government Financial Report (ICOFR), with an annual report to be produced by BPK on its implementation. The internal auditor submits its reports to the minister and the head of the public entity audited. However, the response to internal audits is limited. Management provides a partial response to audit recommendations for the majority of entities audited.

The financial and compliance checks performed through the external audit are also supposed to cover systemic weaknesses of the internal control systems and procedures. Compliance and lawfulness of financial transactions ex post are checked by the external audit, but there is a lack of capacity to introduce a systematic risk management approach, while the follow-up of recommendations by the line ministries is also an issue (PI-26).

Reporting on operations outside the central level is more problematic. Information on resources received by service delivery units (PI-8) illustrates that there is no consistent and regular upward flow of complete information on the aggregate and utilization of resources to accountable ministries, even if the MOEC has comprehensive data at the level of public schools. The monitoring of public corporations is satisfactory (PI-10). The government receives audited financial reports from most public corporations within six months of the end of the fiscal year. Central government entities and agencies quantify some significant contingent liabilities in their financial reports, but information on guarantees and explicit liabilities is not always comprehensive and published. For the monitoring of subnational governments, audited financial statements for all subnational governments are not published systematically within nine months of the end of the fiscal year, but the consolidated report on the financial position of the subnational government is published annually. In Public Investment Management (PI-11), the total cost and physical progress of major investment projects are monitored by the implementing government unit, but standard procedures and rules for project implementation are not harmonized and information on implementation of major investment projects is not systematically published. Public asset management is assessed as adequate. The government maintains a record of its holdings in major categories of financial assets and this is published. The quality of central government non-financial asset monitoring is less effective as a complete and current register of non-financial assets is not available. Revenue arrears monitoring suffers serious weaknesses (PI-19). However, expenditure arrears monitoring is very effective and based on strong control and monitoring procedures.

Overall, the level of internal control monitoring is adequate as transactions are authorized and executed by the relevant individuals within the scope of their authority and the existing IT systems enable these controls to be systematically applied. The implementation of internal controls across the public sector is centralized under the responsibility of BPKP, as a single focus for the systematic review of compliance and monitoring of the activities of the IGs' internal audit units. This arrangement can be strengthened further through the enforcement of clear sanctions and penalties in cases of deviations, external audit reviews by BPK, and the involvement of the scrutiny of parliament as part of its mandate to ensure public resources are managed in an effective and efficient manner.

4.3 PFM Strengths and Weaknesses

Sound PFM performance is a prerequisite for achieving the government's objectives. The impact of the PFM performance as described above on the overall achievement of the three main fiscal and budgetary outcomes is as follows:

Aggregate fiscal discipline

Aggregate fiscal discipline requires the budget to be delivered as planned, with effective systems to ensure financial compliance across the budget implementation cycle. This is supported by a clearly defined fiscal strategy; the capability to prepare robust projections of macroeconomic and fiscal performance; the proper reporting of revenue and expenditure operations outside the budget; and sufficient control over fiscal risks and commitments to maintain expenditures during budget execution.

This aggregate fiscal discipline outcome is partially limited by weaknesses in:

- **Contingent liabilities:** The types of risks to which the budget is exposed in the case of PPP-related guarantees are not adequately covered at present. Meanwhile, there is a lack of information pertaining to explicit contingent liabilities outside the infrastructure sector, for example those relating to health and social security schemes, with no data available on these liabilities. In addition, data on the quantification of, and provision for, implicit contingent liabilities, some of which may be considerable, are unavailable, for example the potential need to bail out large SOEs with non-guaranteed debts.
- **Revenue administration:** Indonesia's tax base is narrow, with only a small percentage filing tax returns, while compliance among taxpayers is low. The revenue-collection agencies have started to introduce modern revenue-management standards and systems to improve revenue collection and tax compliance, such as the tax amnesty program in 2016, but the risk management approach and focus—on major taxes, large taxpayers' segment—and the integration of tax data information still need to be strengthened to effectively improve compliance in all tax components. The management and monitoring of tax arrears is characterized by complex definitions and collecting procedures.

Strategic allocation of resources

Strategic allocation of resources: This is led by the existence of budget rules that assign predictable budget ceilings for annual budget formulation: ensuring the submission is timely, complete and relevant information in available in the draft budget submission for consideration by parliament; ensuring the regular and timely approval of the annual budget law before the effective date of the corresponding fiscal year; implementing a bottom-up and top-down budget formulation process and adopting a five-year national strategic plan defining priorities in the allocation of public funds among sectors and institutions; and regularly monitoring and assessing performance information of the line ministries.

However, the PEFA 2017 assessment indicates that these outcomes are being undermined by poor budget reliability, and a weak linkage between medium-term planning and annual budgeting processes.

- **Budget reliability:** The issue of budget credibility remains a concern. This is for three main reasons: (i) the significant adjustments to the ambitious revenue forecasts in 2015 and 2016; (ii) poor compliance performance with regard to major taxes and targeted large taxpayers; and (iii) significant revisions to the APBN and subsequent budget cuts that undermine the credibility of the original budget process, seriously affecting the strategic allocation of resources and creating large deviations in budget plans and actual outturns.
- **The weak linkage between medium-term planning and the annual budgeting process:** The linkages between the medium-term expenditure framework and the annual budget process are weak, reflecting a silo approach between annual budgeting and medium-term planning, and a lack of quality assurance on monitoring and consistency in reporting at the aggregate level. The misalignment in planning and budgeting can be seen from the lack of application of the first-year budget in Medium-Term Expenditures Framework

(MTEF) into the following budget and inconsistent classification on planning and budgeting in relation to "money follows program". In addition, there are issues in the performance information and evaluation. Both are available, but with too many indicators (6,000 activities and over 20,000 outputs) for performance information and the results do not feed into the annual budget formulation for performance evaluation.

Efficient use of resources for service delivery

Efficient service delivery: The strongest components here are the transparency of key budgeting and fiscal information; the transfer of revenue collections to the TSA system, which allows the availability of funds for the commitment of expenditures; and the systems for allocating inter-governmental transfers, which are defined through a rule-based system with a formula and data calculation that allow for some transparency and predictability for subnational governments.

However, these are undermined by weaknesses in subnational government reporting, and weak public investment management, oversight and public procurement systems.

- **Weak public investment management framework:** Only 40 percent of the major capital investment projects financed through the national and regional budgets APBN or APBD (all presidential priority projects supported by KPPIP are prepared with sufficient technical capacity and resources at the design and implementation stages). The remainder of the projects in the capital investment portfolio are decentralized to line ministries with limited management capacity and control. The costing of major projects is not included in the budget documents, while the monitoring of cost and physical progress is reported outside the FMIS or done by individual line ministries.
- **Poor monitoring of public procurement performance.** Out of the total public procurement value, 30 percent of purchases cannot be tracked or monitored in the e-procurement system, while of the 70 percent that are awarded competitively and can be monitored the data are limited. In addition, no public information is available on awarded contracts or the resolution of complaints, and there is no independent body to review appeals in the complaints-handling process.
- **Weak monitoring of subnational government spending:** Major issues that stand out are: (i) the inter-governmental fiscal transfer system lacks predictability and is still not fully transparent, undermining the quality of local spending. For example, the underlying weight and data of the DAU formula is only made available to subnational governments after the allocations have been made. The DAK *Fisik* allocation is volatile and proposal-based allocations lack allocation criteria; and (ii) the system for publishing a subnational budget realization summary is not well established yet.
- **Lack of responsiveness on audit findings and recommendations:** With most internal audit units only at Levels 1 or 2, performance mainly focuses on compliance audits, which are not adequate for internal control purposes. In addition, there is a need to enhance accountability by publishing line ministries' audit opinions and performance information, while also encouraging line ministries to become more responsive to internal audit findings and BPK audit recommendations.

4.4 Performances Changes since the Previous PEFA Assessment

The previous PEFA assessment in Indonesia 2011 was based on the 2005 PEFA framework. As the PEFA framework and methodology were upgraded in 2011 and 2016 successively, the structure and calibration of the indicators and dimensions have changed significantly, and direct comparison between indicators and scores in the two reports is not possible. Any change in score could be performance-related, but could also be attributable to the change of the PEFA requirement for the performance measurement. As a consequence, measuring the real changes in progress over time since 2011 requires collecting additional data and assessing the performance indicators using the same 2005 framework.

This subsection therefore intends to present the key changes from 2011 to 2017 based on the comparison performed in Annex 5, highlighting the main improvements and their impact on the three main budgetary outcomes.

Overall, the needle has moved in the right direction since 2011 and Indonesia 2017 PEFA shows PFM improvements focused on:

- Aligning the legislative and regulatory framework to the latest international budget, accounting and reporting standards with the adoption of the COFOG classification and accrual accounting standards;
- Establishing a multi-year budgeting framework and a robust macroeconomic fiscal framework to optimize expenditure management in line with revenue mobilization;
- Rolling out the FMIS SPAN as a platform for the integration of the Treasury system and the consolidation of cash management operations at the central government level; and
- Strengthening the effectiveness of the oversight function by the internal audit and external audit institutions.

Areas where significant initiatives have been undertaken but progress is still stagnant are:

- Budget transparency, information and disclosure of fiscal risks and contingent liabilities during the budget process.
- The restructured intergovernmental transfers have introduced more predictability and transparency into the relationship between central and subnational governments.
- The implementation of e-procurement has reduced the number of exemptions, and increased transparency and value-for-money in procurement.
- The ongoing design of the compliance improvement strategy in revenue administration is showing promise and the design of an integrated tax management platform should increase revenue-collection performance in the future.
- The internal control framework is now in place with the adoption of the COSO framework but a risk-based approach and risk management are still not a comprehensive and reliable norm.

Further improvements and alignment with international best practice that had been identified in 2011 are still required.

- In the area of budget reliability, the annual budget has to be consistent with the medium-term strategic planning framework to maintain the policy commitments from the original budget throughout implementation.
- Aggregate expenditure and domestic revenue out-turn remain weak, despite a strong revenue-forecasting capacity.
- Capacity-building on risk and performance management is also still needed to increase the effectiveness the internal audit function, while the follow-up on audit recommendations remains weak.
- Progress on ex-post parliamentary scrutiny over budget execution and audit reports has been slow.

These performance changes specifically affect the budgetary outcomes as follows:

Aggregate Fiscal Discipline

The 2016 PEFA assessment confirms the government's strong capacity to maintain a low budget deficit and stable debt levels, thanks to a robust fiscal framework and comprehensive assessment of fiscal risks and contingent liabilities. Since 2011, the production and monitoring of consistent macroeconomic and fiscal projections, and a comprehensive Debt Management Strategy, based on coherent fiscal scenarios endorsed with the budget and covering all government operations, have contributed to the strict adherence to legally established fiscal rules. The TSA system is now fully operating and allows for accurate cash-flow forecasts, while the cash management system, SPAN FMIS, has resolved all the issues with suspense accounts and expenditure arrears previously highlighted in the external audit.

Strategic Allocation of Resources

The main strengths identified in the 2011 PEFA assessment have been confirmed. The existence of, and adherence to, a formal and participatory budget process, and the timely submission of budget proposals to parliament with very comprehensive documentation and analysis, supports the focus and debate on policy priorities. However, weaknesses are still evident in: (i) the lack of clear alignment in the planning and budgeting frameworks, as well as the lack of consistency and certainty in the budgetary ceilings over the medium term; (ii) the systematic, but also unpredictable, budget adjustments during execution; (iii) the absence of consistent performance information in the budget presentation and reporting; and (iv) the lack of monitoring of the follow-up on external auditrecommendations and scrutiny by parliament.

Efficient Service Delivery

A reliable fiscal strategy, legally binding annual budget ceilings, and improvements in the mobilization of tax resources through the TSA system have improved the availability of funds for commitments for expenditure on service delivery. However, important weaknesses are still identified in the decentralization of systems to line ministries for all decisions regarding implementation and monitoring of procurement, payroll and public investment associated with the limited capacity of internal audit departments, and the absence of consolidated reports on expenditures incurred by frontline service delivery units.

5. The Government's PFM Reform Process

5.1 Approach to PFM Reforms

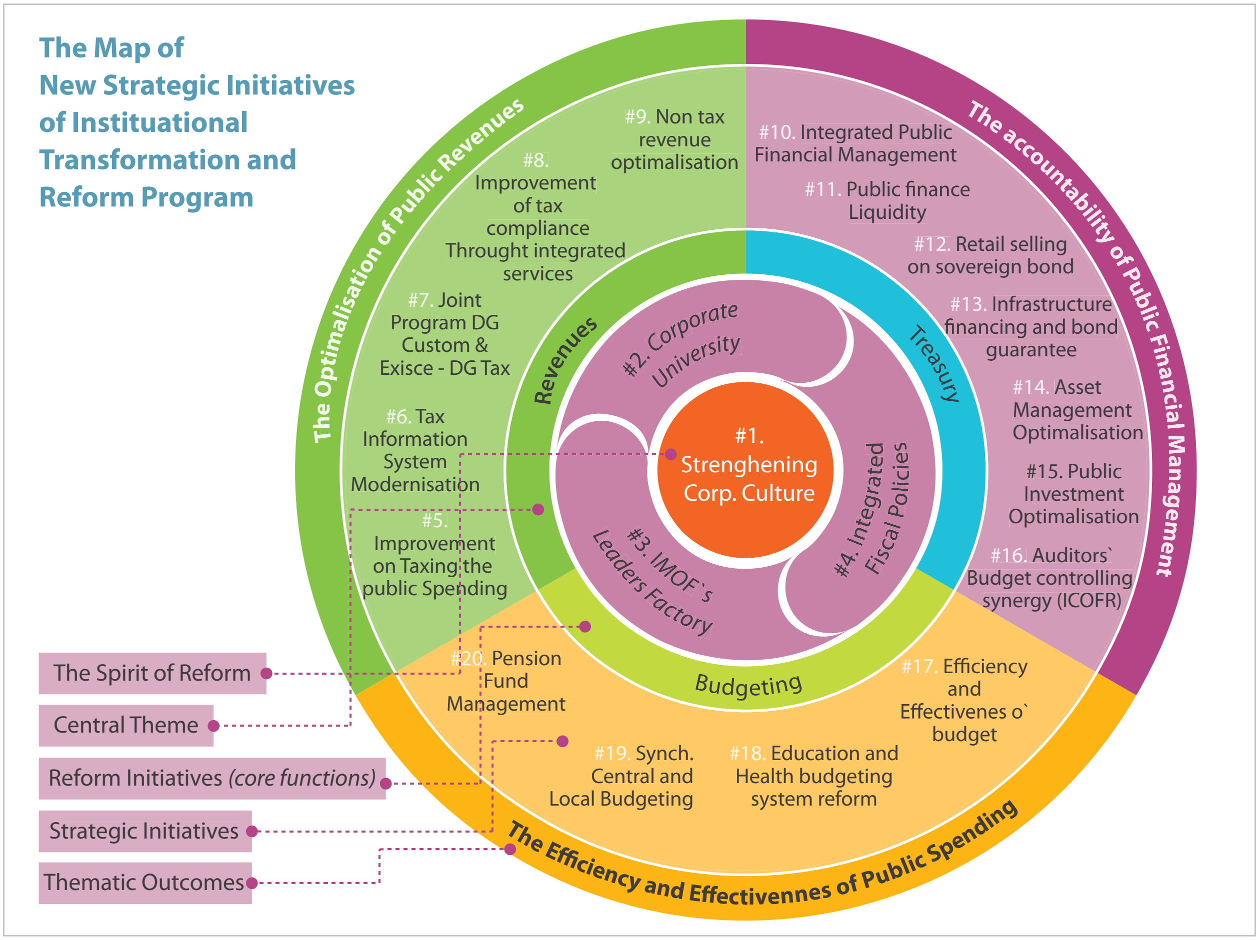
Achieving a strong and credible PFM system has been central to the Government of Indonesia's governance agenda. Following the 2001 Country Financial Accountability Assessment of the World Bank, which highlighted a number of deficiencies in Indonesia's PFM system, the government, through a White Paper, set the national PFM reform agenda in 2002. The White Paper, among other things, sought to improve the results orientation in state budget planning, and modernize budget and treasury management, including public procurement systems, together with government accounting and audit functions.

Indonesia's PFM reform program over the past 15 years has focused on the operationalization of the government's White Paper. The ensuing legal framework to encapsulate the policies articulated in the White Paper includes: (i) Law No. 17/2003 on State Finance; (ii) Law No. 1/2004 on State Treasury; and (iii) Law No. 15/2004 on State Audit. These three laws created a new institutional framework and set the course toward strengthening the quality of budget institutions in the formulation of the budget, treasury operations and expenditure oversight.

In recent years, the need to move further forward with PFM reforms has also been highlighted in the Ministry of Finance's institutional transformation blueprint, as Indonesia's main PFM institution. The Ministry of Finance introduced its institutional transformation blueprint in 2014 to keep pace with the government's evolving priorities. The blueprint, under Minister of Finance Decree No. 36/KMK.01/2014, introduced 87 strategic initiatives to be implemented by all Echelon I units over the subsequent decade. In late 2016, the blueprint was further refined into 20 strategic initiatives under KMK No. 974/2016 based on five principles: (i) achieving high levels of tax, excise and duty compliance through excellent service and rigorous law enforcement; (ii) implementing prudent fiscal policies; (iii) managing the central balance sheet with minimum risk; (iv) ensuring that revenue funds are distributed efficiently and effectively; and (v) attracting and developing best-in-the-class talent by offering competitive employee packages. The decree also spans over three strategic areas that cover PFM issues—revenue, treasury and budgeting—as outlined below (see also Figure 2):

- **Strategic initiatives on Revenue:** The objective is to achieve optimal state revenue outcomes from tax, customs, excise and non-tax revenues through five initiatives: (i) securing tax revenue over government expenditure; (ii) modernizing DG Tax's information system to optimize tax revenues; (iii) introducing a joint program between DG Tax and DG Customs and Excise on revenue optimization; (iv) developing an integrated service-user compliance system to optimize revenues from customs and excise; and (v) optimizing non-tax revenues.
- **Strategic initiatives on Treasury:** The objective is to achieve 'an accountable state financial management' outcome in the areas of cash management, financing and state assets through seven initiatives: (i) achieving modern, efficient and integrated state finance management; (ii) managing state finance liquidity with modern finance instruments; (iii) improving public participation by developing distribution lines for online retail state bonds; (iv) accelerating infrastructure development with bond guarantees; (v) empowering assets to boost the national economy; (vi) optimizing government investment to support sustainable development goals; and (vii) synergizing the monitoring DG Treasury general budget implementation and the implementation of internal control over financial reporting (ICOFR) on the financial reporting of the central government (LKPP).
- **Strategic initiatives on Budgeting:** The objective is to achieve 'efficient and effective spending' outcomes, both in terms of central government spending and in transfers to the regions through four initiatives: (i) realizing a good quality budget and spending by ensuring effective and efficient spending; (ii) improving the quality of spending on education and health to enhance the quality of human resources and public health standards; (iii) synchronizing the budgeting of central and subnational governments; and (iv) optimizing the budget policy on pension program management.

Figure 4: The Ministry of Finance's 20 Strategic Initiatives



The Central Transformation Office (CTO) was established specifically to lead this transformation, with support from a change management team.

5.2 Recent and Ongoing Reform Actions

This subsection summarizes recent reforms undertaken and progress made by the government in strengthening its PFM systems across the main strategic initiative areas that cover PFM issues of budgeting, revenue, and other execution related systems that will be contributed to the reform initiatives on improving the value of money.

Budgeting

The weak link between the medium-term planning process and the annual budgeting process represents a challenge for the reliability and effectiveness of the budget formulation process, as identified in the indicator PI-16. Additional areas for improvement are related to the process in place to define the fiscal forecasts, particularly the ambitious revenue forecasts in 2015 and 2016 that have resulted in significant adjustments to the original and revised budgets and triggered subsequent budget cuts that undermined the credibility of the original budget process.

Government Regulation (PP) No. 90/2010 stipulated that the budget proposal would 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 scrutinized and approved with funding consequences for existing estimates. Thus, the regulation foresaw the "roll- over" of the forward estimates from the previous year and use updated estimates as the starting point for the development of the new budget. However, since reforms were in the initial stages, the evidence of the strength of this was not clear, particularly the ability of MoF and Bappenas to enforce it and to build sufficient capacity in the line ministries. The breakthrough has happened recently as when determining the indicative ceilings for the preparation of the 2018 budget, as the indicative ceiling is being based on the first year forward estimate included in the previous budget. A special IT application on MTEF has been developed by AIPEG to support the roll-over of the forward projections. The application enables tracking of changes in the forward estimates between budgets. The Finance Minister regulation (PMK 163/2016) covers the process of rolling over and updating the forward estimates. Therefore, the first opportunity for the rollover is for the 2018 budget.

In addition, to address the challenge on budget formulation and process, early in 2017, the government issued Government Regulation No. 17/2017 on the Harmonization of Planning and Budgeting for National Development to strengthen the link between planning and budgeting process. This regulation provided a framework to synchronize the planning and budgeting processes between Bappenas and the MOF. The regulation will be effective for the 2018 budget cycle. Synchronization for the process of national planning and budgeting requires integrating and strengthening the formulation of the national development plan and budget, as well as the control of development target achievement.

Revenue

Collecting more tax is a top priority for the government. The performance of tax administration remains critical if the government is to meet its ambitious tax collection goals. These challenges are reflected in the performance of some indicators, particularly PI-3 and PI-19, and relate to complex tax regulations, a narrow tax base with a limited number of taxpayers filing returns, a relatively low compliance rate, low capacity in terms of IT systems and human resources, and a lack of effectiveness in the overall risk management approach. Additional areas for improvement are related to the process in place to define the fiscal forecasts, particularly the ambitious revenue forecasts in 2015 and 2016 that have resulted in significant adjustments to the original and revised budgets that undermined the credibility of the original budget process.

Strengthening tax administration is key to raising government revenue. In early 2014, DG Tax adopted an Institutional Transformation Blueprint to update the reform program that it had started in the early 2000s.[31] The 2014 blueprint plans a medium-term reform strategy with 10 transformation themes and 16 strategic initiatives to increase the tax ratio from just 11-12 percent in 2014 to 16 percent by 2019. Initiatives rolled out to improve administrative capacity include: (i) the introduction of electronic tax filing (VAT returns, individual and corporate income tax); (ii) implementing a unique taxpayer ID system; (iii) improving access to third-party taxpayer data for auditing purposes; and (iv) developing the initial methodology for a compliance risk management (CRM) model. There is an ongoing initiative to modernize DG Tax's outdated ICT and data management systems. DG Tax is exploring financing schemes, including PPP, to support the needed ICT investment. The government is also considering transforming DG Tax into a semi-autonomous revenue authority (SARA) by 2017-18 in order to provide greater autonomy in human resources, organization and budget management. The decision is currently under discussion in parliament as part of the revision of the General Tax Administration (KUP) Law.[32]

The government has also set out an ambitious tax policy reform agenda.[33] In 2016, DG Tax revised both the VAT and income tax laws, which are now scheduled to be deliberated by parliament. The government also has plans to revise the final tax regime established by a 2013 government regulation for micro, small and medium enterprises.

31 Between 2001 and 2008, DG Tax initiated a set of tax administration reforms, including the "extensification" program (registering of additional taxpayers); improving audit and collection of late tax payments processes, creation of large, medium and small taxpayers' offices, and reforming HR management. These reforms are estimated to mobilize additional revenues of 1 percent of GDP over four years (Brandolo, J. et al., 2008. "Tax Administration Reform and Fiscal Adjustment: The Case of Indonesia (2001-07)").

32 Tax policy reform priorities for 2017 include the separation of functions between DG Tax and the Fiscal Policy Agency on administrative and tax policy functions, and the revision of the government regulation for micro, small and medium enterprises, as well as continuing to implement a set of regulations on international taxation.

33 There were a number of measures undertaken in 2015 to raise taxes, but no substantial changes in tax policy (the MOF issued regulation PMK No. 90/2015 and PMK No. 107/2015 to expand the type of goods and withholding agents and lowering the threshold for the withholding tax (Art 22 of the income tax law); the MOF raised in July import duties on around 1,000 consumer goods).

This reformulation has the potential to significantly broaden the tax base, ease administrative complexity, reduce economic distortions and provide incentives for strategic behavior by taxpayers by simplifying the tax structure. There is also a focus on using tax policy as an instrument to boost consumption and investment through expanding tax incentives.[34]

In addition to these medium-term tax administration reforms, the pressure to meet ambitious revenue targets in 2015 and 2016 has led to multiple initiatives designed to raise revenues in the short term, including the asset reevaluation program in 2015 and the tax amnesty program in 2016/17.[35] The three-phased tax amnesty program began in July 2016 and was concluded on March 31, 2017, with more than 973,100 participants. The program was successful in mobilizing IDR 114.52 trillion in redemption fees, equivalent to 10.5 percent of the government's 2016 total tax revenues.[36] It also encouraged Indonesians to declare assets totaling IDR 4,882 trillion, or 122.1 percent of the government's target. However, the government was less successful in the repatriation of offshore assets. Only 12.4 percent of declared offshore assets were repatriated, about 14.7 percent of the government's original target of IDR 1,000 trillion. Longer-term benefits of the tax amnesty will rest on the ability of the tax authorities to use new taxpayer data collected under the amnesty.

The Tax Reform Team (*Tim Reformasi Perpajakan*) was established in December 2016 to oversee a comprehensive tax administration and policy reform program to increase Indonesia's tax-to-GDP ratio from 10.4 percent in 2016 to around 16 percent by 2019. The program centers around three pillars: (i) business processes and information technology (IT); (ii) human resources and organization; and (iii) legislation. In addition to the team's transformative agenda, the government is continuing to implement incremental improvements to its administrative tax system: enforcement of the universal use of the VAT e-invoice system; increasing electronic filing of income taxes; and allowing the tax authorities access to taxpayers' credit cards and bank account data for auditing purposes.

Execution Related Systems

The government's strategic reform initiatives on PFM focused on the optimization of public investment through strengthened public investment management and procurement, and more effective oversight related to the internal and external audit functions.

The challenges in public investment management lie mostly in the absence of guidelines and criteria, leading to a lack of quality control on project selection and preparation, as well as on the monitoring of infrastructure projects. To address challenges in the delivery of infrastructure projects, the government has already implemented a number of measures, including: (i) the revision of the land acquisition regulation to accelerate the process; (ii) increasing the use of early procurement for capital projects in the 2016 budget; (iii) the issuance/revision of regulations to ease constraints on PPPs; and (iv) the use of multi-year contracts. In addition, the government is continuing to strengthen the control environment and the regulatory framework for public procurement to improve the efficiency of spending, i.e., how well resources are used as intended and translated into outputs and outcomes.

The National Public Procurement Agency (LKPP) was established by a presidential regulation (Perpres) to govern the implementation of e-procurement to increase transparency and efficiency in the procurement process. Procurement reform in Indonesia was initiated in 2003 through Presidential Decree No. 80/2003, later replaced by Presidential Regulation (Perpres) No. 54/2010, which was revised twice in 2012 and 2015 with the issuance of Perpres No. 70/2012 and Perpres No. 4/2015, respectively. The scope of reforms has been extensive,

34 Key 2015 measures included: (i) increasing the non-taxable personal income tax threshold to IDR 36 million (from IDR 24.3 million previously) through PMK No. 122/2015; (ii) the revision of the government regulation on investment-linked tax allowances (PP No. 18/2015) in April 2015 expanding the scope to 144 business sectors and streamlining the process for applying and securing these tax allowances; and (iii) the MOF issued in August 2015 PMK No. 159/2015, which expanded the existing tax holiday facility, enabling the minister to offer investors in sectors defined as "pioneering" holidays of up to 20 years.

35 The program offered reduced tax liabilities for declarations made of previously undeclared assets, with lower tax rates for onshore and repatriated offshore assets, compared with non-repatriated offshore assets.

36 State Financial Note, 2017.

covering the procurement of goods, services, consulting services and public works, regardless of size or value. Regulations and procedures to facilitate procurement have been issued and made applicable to all levels of government. The regulations required all government units, as well as national and subnational levels of government, to adopt e-procurement by 2012 to increase transparency and efficiency in the procurement process. It also required procurement service units (ULPs) to be established with accredited personnel at all levels of government to standardize the organization of procurement. Finalization of the rules to advance procurement through an annual procurement plan before the start of the financial year to speed up disbursements was laid out by Perpres No. 4/2015.

E-Procurement has gained momentum; however it has not been able to fully capture the whole procurement process and information electronically. There has been a rapid increase in the number of provinces and local governments using e-procurement. Recent data indicate that around 33 provincial governments and 681 regional governments and government institutions have introduced e-procurement. In Indonesia, e-procurement has reduced delays in the completion of public works projects. The government has been strengthening the procurement process through the implementation of e-procurement, limiting the use of unnecessary pre-qualifications and improving the capacity of the audit agencies. All these efforts have contributed toward improved PFM.

A standardized procurement law—Indonesia's first ever procurement law—is currently being prepared and includes concessions and PPP transactions. Indonesia has a plethora of decrees, regulations and instructions issued by ministers, provincial governors, district heads and municipal mayors, many of which contain conflicts and inconsistencies. LKPP is now focused on the preparation of a standardized procurement law and has carried out a public consultation process on a draft law that included government agencies and international development partners.

The challenges on the oversight function is the lack of response to the internal audit findings and the absence of comprehensive follow-up to the external audit report.

Several measures have been adopted to improve the internal auditors' capacity. The government intends to increase the capacity of the government's internal auditors to Level 3 on the Internal Audit Capacity Model (IACM) scale. Currently, only about 5 percent of internal auditors are qualified to Level 3. The President has instructed that auditors with this level should be increased from just 5 percent to 85 percent by 2019.

The State Audit Agency, or *Badan Pemeriksa Keuangan* (BPK), as Indonesia's supreme audit institution (SAI), has made steady progress in the quality of its audits. A peer review conducted by the Dutch Court of Auditors in 2009 identified some areas for improvement, in particular the need to improve the readability of audit reports and the quality of analysis in audits. BPK prepared a new strategic plan for the period 2011-15. The new strategic plan reflects lessons from the peer review and includes the vision of the new BPK Board. BPK has also prepared a detailed implementation plan to support the execution of the strategic plan. BPK has adopted several measures to strengthen auditors' professionalism and integrity by improving the quantity and quality of BPK's audit resources. These measures include increasing the number of qualified auditors and representative offices, and increasing the use of information technology (IT). BPK requires more auditors with diverse educational backgrounds, in addition to accounting and finance backgrounds, to execute performance audits to enhance the quality of public administration and accountability. ADB has been supporting BPK through the State Audit Reform Sector Development Program.

5.3 Institutional Considerations

Government leadership and coordination across government

Indonesia's PFM reform agenda is driven and owned by the Government of Indonesia, with the MOF taking a leading role. Development partners have supported the agenda from the start and have remained engaged at both the central and subnational levels through a broad mix of policy-based operations, projects and technical assistance activities.

To support the institutional transformation reform, in 2004, the MOF established the Central Transformation Office (CTO) under the Office of the Secretary General to lead the implementation of strategic initiatives indicated in the blueprint. The CTO is responsible for supporting and coordinating the whole institutional transformation reform across Echelon I units. The role in general includes: providing reliable management support in order to ensure the successful implementation of all the initiatives; supporting rapid decision-making without bureaucracy and government hierarchy; creating transparency by monitoring the implementation and performance of a number of key transformation priorities; providing assistance in resolving problematic situations and taking corrective action to address poor performance (if necessary); coordinating with the Project Management Office (PMO) in each Echelon I on the preparation of implementation report progress; and supporting the involvement of internal and external stakeholders.

A team to evaluate budget realization of central and subnational governments has been established. For coordination with external government institutions (outside the MOF) on PFM activities, in particular budget execution, in September 2015 the MOF also established a team to evaluate and monitor budget realization of central and subnational governments, known as TEPRA (*Tim Evaluasi dan Pengawasan Realisasi APBN dan APBD*), which is chaired by the finance minister. TEPRA is expected to coordinate with all line ministries and government agencies in monitoring budget realization.

Development partners

Since 2004, PFM reforms have remained high on the World Bank's agenda. Budget and Treasury have been the focus of the eight-annual policy-based Development Policy Loans (DPL) to the government. The World Bank has also delivered a decade-long project, the Government Financial Management and Revenue Administration Project (GFMRAP), aimed at strengthening efficiency, governance and accountability in PFM. The World Bank-financed GFMRAP, which closed in December 2015, was supported by the Government of Japan, the IMF and the PFM Multi-Donor Trust Fund (MDTF) financed by the European Union, and the Governments of the Netherlands, Switzerland, Canada and the USA.

ADB is among the main development partners at the subnational level. ADB's Local Government Finance and Governance Reform (LGFGR) programs has supported PFM strengthening at the subnational level, especially in the implementation of a computerized Financial Management Information System (FMIS) at 171 regional locations. In addition to the State Audit Reform Sector Development Program, other projects/programs include: the Sustainable Capacity Building for Decentralization Project; the Local Government Finance and Government Reform Sector Development Program; and the Local Government Finance and Government Reform Sector Development Project. The Fourth Development Policy Support Program included outputs for improved PFM and governance, as well as the delivery of public services. ADB provided support to the performance management system as well as the fiscal and public expenditure management program to strengthen public sector accountability through BPKP. Government of Switzerland, through ADB, is also providing support to DF Fiscal Balance of MoF and several local governments to increase local own-source revenues and tax compliance rates by improving the tax administration and policy-making capacity of the local governments.

Several other bilateral development partners are also involved in PFM reform. These include the Government of Australia, which has been active in building PFM capacity at a number of subnational authorities, and Germany's GIZ and Canada's Department for Foreign Affairs and Trade Development, which have engaged at the subnational levels through piloting capacity-building projects in selected provinces. USAID has also supported Open Government initiatives to strengthen budget transparency and disclose detailed budget information across all levels of government.

The ongoing PFM MDTF program mentioned above provides reform monitoring and evaluation. One of the components of the PFM MDTF is to provide better oversight of the PFM reform process. The program has produced a stock-take on the overall progress of PFM reforms. The program is in the process of developing a framework to monitor reform progress as part of the design of a roadmap for the next phase of PFM reforms. This roadmap will complement the PEFA 2017 in informing the next phase of the government's PFM reform agenda.

A sustainable reform process

Sustainability of PFM reforms across government is critically dependent on several factors, such as strong ownership, the capacity to internalize reforms, the institutional set-up and stakeholders' understanding of the benefit of changes. Although there is strong government commitment to sustain reforms, the ownership of the reform process is still largely limited to the MOF and a number of line ministries responsible for broad-based institutional change management, such as the Ministry of Administration and Bureaucracy reform and Bappenas.

The government has recognized that the main constraints to improving public sector performance include rigid, hierarchical, institutional and bureaucratic structures. The MOF began its bureaucratic reform program in 2006, by focusing 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 finance minister announced the second phase of reforms, with a focus on human capital development and an information system for human resources as key priorities. More broadly, the government has commenced the process of implementing an agency-by-agency reform process, guided by an overarching policy framework set out in a Grand Design for Bureaucracy Reform (BR) for 2010-25, together with a Road Map for 2010-14, which were eventually approved in December 2010. These achievements will extend the reforms to the other line ministries (K/L) and eventually to SNGs, where capacity constraints are particularly acute.

The World Bank, through its Scholarships Program for Strengthening Reforming Institutions (SPIRIT), has made a significant contribution to the development of a comprehensive capacity-building program through degree programs (masters and doctorates) and non-degree programs (short courses and internships) for selected line ministries (K/L) and agencies since 2011. By the end of 2017, more than 2,200 alumni (for degree programs) will have graduated from SPIRIT. Most of the civil servants that have received the scholarships undertake their study in overseas universities (universities in the UK, Australia, the USA and Japan are among the favorites that civil servants have applied to and graduated from). Four key line ministries and agencies that are involved and engaged with the PFM reform program, namely the MOF, Bappenas, BPK and BPKP, are among the participating agencies that have benefited from this program.

In general, the key to sustainable reform requires the effort to strengthen the capacity to internalize reforms, particularly from an institutional perspective, and to ensure that the main stakeholders recognize that the benefits of change are to their own advantage and will enable them to function and perform better in the future.

Annex 1: Performance Indicator Summary

Indonesia's PEFA 2016 Assessment Based on PEFA Framework 2016			Assessment Based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
Pillar One: Budget Reliability			
PI-1	**Aggregate expenditure outturn**	**C**	**The execution of the budget in Indonesia underwent two years of deviations greater than 5% in relation to the original approved budget, of 11.4% and 11%, respectively, in 2015 and 2016 (aggregate expenditure outturn was between 85% and 115% in 2015 and 2016).**
PI-2	**Expenditure composition outturn**	**C+**	**The functional composition variance was less than 10% and the economic composition variance was less than 15% in two of the past three years. Average actual expenditure charged to contingency vote was less than 3% of the original budget.**
	2.1. Expenditure composition outturn by function	B	The functional composition variance was 6.8%, 22.6% and 5.5% in 2014, 2015 and 2016, respectively, less than 10% in two of the past three years.
	2.2. Expenditure composition outturn by economic type	C	Variance in expenditure composition by economic classification was 11%, 23.5% and 6.4% in 2014, 2015 and 2016 respectively, hence less than 15% in at least two of the past three years.
	2.3. Expenditure from contingency reserves	A	Actual expenditure charged to a contingency vote was on average less than 3% of the total expenditure in the original budget.
PI-3	**Revenue outturn**	**D**	**Aggregate revenue outturn was between 92% and 116% for only one year and the revenue composition variance and remained above 15% for two years in the period (2015 and 2016).**
	3.1. Aggregate revenue outturn	D	Actual revenue was between 92% and 116% of budgeted revenue in only one of the past three years in 2014.
	3.2. Revenue composition outturn	D	Variance in revenue composition was less than 15% in only one of the past three years in 2014.
Pillar Two: Transparency of Public Finance			
PI-4	**Budget classification**	**A**	**The same budget and accounting structure is consistently applied throughout the budget formulation, execution and reporting cycle according to organizational (administrative) units, function/sub function, economic and programmatic classifications, and it is compliant with latest GFS/COFOG standards.**
PI-5	**Budget documentation**	**B**	**The budget documentation is generally comprehensive. The budget documentation fulfills 9 of 12 elements including every basic element (1-4).**
PI-6	**Central government operations outside financial reports**	**A**	**Revenues and expenditures outside the government financial reporting represent less than 1% of total revenues and expenditures and detailed financial reports of the BLU are submitted within three months of the end of the fiscal year.**

Indonesia's PEFA 2016 Assessment Based on PEFA Framework 2016			Assessment Based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
	6.1. Expenditure outside financial reports	A	The establishment of the TSA and the inventory of (expenditure) bank accounts guarantee the consolidation of government expenditure transactions into government operations and reporting. Extra-budgetary units defined as BLU are consolidating their operations within the line ministries. A small amount of unreported grant expenditures from development partners was identified in 2016 (i.e., 0.15% of total expenditure budget in FY 2016).
	6.2. Revenue outside financial reports	A	The establishment of the TSA and the integration of all (revenue) bank accounts guarantee that all revenue collection accounts in collecting banks are consolidated by DG Treasury.
	6.3. Financial reports of extra-budgetary units	A	The only type of extra-budgetary unit according to the definition from GFSM 2014 in the Indonesian context is BLU. BLU financial reports are submitted and consolidated into the government annual financial reports within three months of the end of the fiscal year. Their assets are consolidated within the state asset reporting and their annual work plan and budget integrated within their respective parent ministry budget.
PI-7	**Transfers to subnational governments**	**B**	**Most of the transfers to subnational governments are based on clearly defined set of rules, procedures and timing of the information provided to the subnational governments allowing six weeks before the deadline for budget approval by regional parliament (December 31 of prior year).**
	7.1. System for allocating transfers	C	73.9% of the central government's transfers to subnational governments are rule-based, transparent and predictable in their calculation and in the use of underlying data.
	7.2. Timelines of information on transfers	A	In 2016, information on most of the transfers were uploaded to the DG Fiscal Balance website right after the State Budget Law was approved on October 26, providing the regions with two months to include relevant information in their budgets.
PI-8	**Performance information for service delivery**	**C+**	**Performance information (both financial and non-financial) is presented and published in the budget documentation and year-end reports. The 2014-15 survey provides estimates of the resources received by the frontline services and an evaluation of service delivery performance was carried out but not made available to the public.**
	8.1. Performance plans for service delivery	B	The government annual work plan (RKP) provides program objectives together with their key performance indicators for the planned outputs/outcomes for most line ministries/institution along with the indicative budget ceilings for every line ministries/institutions. But the definition of output and outcomes is not always consistent.
	8.2. Performance achieved for service delivery	B	Most of the K/L prepare a performance report that includes detailed programs and activities with: targeted indicators for individual activity; financial progress in terms of budget plan and realization; and elements of outputs/outcomes compared with the planned targets and achievements. The report is normally published in the ministry's website.
	8.3. Resources received by service delivery units	C	Detailed information and estimation on actual sources of funds received by service delivery unit (school and primary health care facilities) can only be obtained through the Indonesia Family Life Survey conducted in 2014-15.

Indonesia's PEFA 2016 Assessment Based on PEFA Framework 2016			Assessment Based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
	8.4. Performance evaluation for service delivery	C	Although performance evaluations for service delivery are regularly conducted for each K/L, the evaluation reports are not made publicly available.
PI-9	**Public access to fiscal information**	**A**	**All five basic and three additional elements are fulfilled and information made available to the public within the specified timeframes.**
Pillar Three: Management of Assets and Liabilities			
PI-10	**Fiscal risk reporting**	**C**	**Annual reports for public corporations and subnational government are normally published after the end of the fiscal year. A significant delay can occur for subnational government annual financial reports. The fiscal risk within the Financial Note cover most contingent liabilities and other risks.**
	10.1. Monitoring of public corporations	B	Audited annual financial statements are published for most public corporations within six months of the end of the fiscal year.
	10.2. Monitoring of subnational governments	D	Audited annual financial statements are not published for *all* subnational governments within nine months of the end of FY 2015, but instead were published in early FY 2017. A consolidated report on all the financial positions of all subnational governments, however, is published annually.
	10.3. Contingent liabilities and other fiscal risks	C	The Financial Note to the budget covers significant contingent liabilities from government operations and programs, but the narrative included with the budget is descriptive, there is no quantification and consolidation of the fiscal risks identified.
PI-11	**Public investment management**	**D+**	**Major and strategic capital investment projects are subject to Bappenas' and the MOF's review and approval during the budget process, before they are implemented by line ministries. However, detailed technical, financial, economic, environmental and sensitivity analyses are not always available or completed at the time of investment project selection. If all presidential priority projects (40% of the major capital investment projects financed through the national and regional budgets APBN or APBD) are supported by KPPIP (the Committee for Acceleration of Priority Infrastructure Delivery) with sufficient technical capacity and resources at the design and implementation stages, then the remainder items in the capital investment portfolio are decentralized to line ministries with limited management capacity and control. The costing of major projects is not included in the budget documents, while the monitoring of cost and physical progress is reported outside the integrated SPAN information or done by individual line ministries.**
	11.1. Economic analysis of investment proposals	C	The review of the major national priority projects by KPPIP is based on sound PIM criteria but represents only 40% of the pipeline. For the rest of the projects submitted by the line ministries for the budget submission, only limited financial and project design information is required.
	11.2. Investment project selection	C	Apart for the 40% of the national priority projects supported by KPPIP, the project selection is not based on standard criteria for prioritization and selection.
	11.3. Investment project costing	D	There are no national guidelines for project costing and identification of recurrent costs. The information provided by the line ministries in the RKA-KL document for the estimates of capital investment needs is not always reliable.

Indonesia's PEFA 2016 Assessment Based on PEFA Framework 2016			Assessment Based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
	11.4. Investment project monitoring	D	Monitoring of cost and physical progress of major investment projects is decentralized to line ministries and the quality and capacity of this monitoring varies across ministries. Furthermore, the results of the implementation of major investment projects (funded by the state budget) by individual ministry are not published in the budget documents.
PI-12	**Public asset management**	**B**	**BPK reports include substantial observations on the weaknesses in the management and monitoring of (financial and non-financial) public assets at the central government level. Fixed asset registers are in place but reports are not published annually. Rules and procedures for transparent transfer and disposal of assets are established but not specifically reported to parliament.**
	12.1. Financial asset management	A	The government annual financial report (LKPP) records all categories of financial assets for both categories of the short- and long-term (permanent) investments and publishes all government financial assets' portfolio performance invested in other separated entities. such as the state-owned enterprises (SOEs), other state companies non-SOE, foundations, and state institutions (i.e., central bank, deposit guarantee agency). Different valuation methods are applied to different financial assets according to their nature and type, in line with the international accounting standards.
	12.2. Non-financial asset monitoring	C	The government maintains a register of all fixed assets, including information on their usage and age, but there is no regular process to document and update the registration of subsoil assets, which is relevant for a natural resources rich country such as Indonesia, which receives a large amount of tax and non-tax revenue from oil, gas and other minerals mining operations.
	12.3. Transparency of asset disposal	C	The Government Regulations No. 27/2014 and No. 1/2008 regulate the approval procedures for the transfer or disposal of financial and non-financial assets. Information submitted to parliament through the financial note document for approval and financial reports (LKPP) for information is not detailed.
PI-13	**Debt management**	**B+**	**DG Budget Financing and Risk Management in the MOF is responsible for the management and publication of the data on domestic and foreign debt portfolios and monthly updates are available. Approval of debt ceilings and guarantees is established by law and a medium-term debt management strategy is published, but not updated annually.**
	13.1. Recording and reporting of debt and guarantees	A	Domestic and foreign debt and guaranteed debt records are complete, accurate, updated and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock and operations are produced at least quarterly.
	13.2. Approval of debt and guarantees	A	Primary legislation grants authorization to borrow, issue new debt and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government and parliament.

Indonesia's PEFA 2016 Assessment Based on PEFA Framework 2016			Assessment Based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
	13.3. Debt management strategy	C	A medium-term debt management strategy covering existing debt with a horizon of 2014-17 has been submitted to parliament and publicly reported. The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks. Annual reporting against debt management objectives is provided to parliament. The annual borrowing plan is consistent with the approved strategy. However, the MTMS is not updated on a rolling basis and forecasts for 2018 are not publicly available.
Pillar Four: Policy-based Fiscal Strategy and Budgeting			
PI-14	**Macroeconomic and fiscal forecasting**	**B+**	**Macroeconomic projections are prepared for three years, included in the budget documentation submitted to parliament and published. Fiscal forecasts are published and alternative scenarios are presented and discussed internally.**
	14.1. Macroeconomic forecasts	A	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to parliament. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years. The projections have been reviewed by an entity other than the preparing entity
	14.2. Fiscal forecasts	B	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in budget documentation submitted to parliament.
	14.3. Macro-fiscal sensitivity analysis	B	The government presents within the financial notes (LKPP) a range of fiscal forecast scenarios based on alternative macroeconomic assumptions. The budget documents include discussion on forecast sensitivity to different macroeconomic criteria but falls short of presenting scenarios (overall government revenues over expenditures, economic growth potential and risks) in the short, medium and long term, and the impact of the macro-fiscal context on the main sectors or expenditure categories.
PI-15	**Fiscal strategy**	**B+**	**The government's fiscal strategy with a three-year horizon is included in the Financial Notes to the budget and published but does not present systematically the fiscal impact prepared internally by MOF on all changes in revenue and expenditure policy. Deviations on fiscal quantitative targets are reported in the annual budget report.**
	15.1. Fiscal impact of policy proposals	C	MOF prepares estimates of fiscal impact of all adjustments to revenue and expenditure policy proposed in the budget but the budget documentation presents only some of the proposed changes in revenue and expenditure policy for the budget year.
	15.2. Fiscal strategy adoption	A	The government has adopted, submitted to parliament and published a current fiscal strategy that includes explicit time-based quantitative fiscal goals and targets, together with qualitative objectives for at least the budget year and the following two fiscal years

Indonesia's PEFA 2016 Assessment Based on PEFA Framework 2016		Assessment Based on PEFA Framework 2016
Pillar/Indicator/Dimension	**Score**	**Description of Requirements Met**
15.3. Reporting on fiscal outcomes	A	The government has submitted to parliament, and published with the annual budget, a report that describes progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set. The report also sets out actions planned by the government to address any deviations, as prescribed by law.
PI-16 Medium-term perspective in expenditure budgeting	**C+**	**Expenditure budgeting includes medium-term expenditure ceilings and uses the MTEF template as a strategic reference for budget preparation. However, annual and medium-term budget diverge from the sector strategic plans prepared by the line ministries due to changing policies and priorities.**
16.1. Medium-term expenditure estimates	C	The standard MOF template for preparing the annual budget plan (RKA-KL) requires a line ministry to submit proposed expenditures for the next year and a projected budget for the three following fiscal years. The allocation published with the budget is available by administrative unit but not at the economic classification level.
16.2. Medium-term expenditure ceilings	A	The first budget circular for indicative expenditure ceiling is jointly issued by Bappenas and the MOF, and provides ministry-level expenditure ceilings for the next and three following fiscal years.
16.3. Alignment of strategic plans and medium-term budgets	C	Sector strategies and ministerial strategic plans (Renstra), complete with costing, are defined for all line ministries. Renstra provides a five-year horizon at program, activity and project level with targets and funding requirements, translated into an annual Renja with a direct link to the APBN. However, Renstra plans do not constitute a reliable basis for the sector strategy costing required for a proper MTEF and the alignment with the medium-term budgets is partial.
16.4. Consistency of budgets with previous year estimates	C	The budget documentation of FY 2017 did not provide any explanation of changes to expenditure estimates between the last medium-term budget and the current medium-term budget at the ministry level. The financial note provides an explanation of some changes at the aggregate level only. (Financial Note of 2017 Book 2 Chapter 4 Table II.4.8.) The MOF issued Regulation No. 163/2016 requiring each line ministry to use the first forward estimate of last year's budget as the baseline for calculating estimates for the following budget but it will only be applicable for the 2018 budget.
PI-17 Budget preparation process	**A**	**A clear and comprehensive annual budget calendar is issued allowing sufficient time for preparation and submission by spending agencies. The circular includes the approved 'hard' budget ceilings and the budget is systematically submitted to parliament 18 weeks before the start of the new fiscal year.**
17.1 Budget calendar	A	The annual budget calendar allows the spending unit about three months to complete their detailed estimates of budget (RKA-KL) after the first budget circular issued (end of March to June).
17.2. Guidance on budget preparation	A	The first budget circular on indicative ceilings is jointly issued by Bappenas and the MOF in March after a Cabinet meeting to approve the draft annual government-wide work plan (RKP). This budget circular covers total budget expenditure for the full fiscal year and the detailed allocation by line ministries and programs.

Indonesia's PEFA 2016 Assessment Based on PEFA Framework 2016			Assessment Based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
	17.3. Budget submission to parliament	A	The President submits the budget proposal to parliament in August (more than two months) before the start of the fiscal year in January.
PI-18	**Parliament scrutiny of budgets**	**A**	**The scrutiny of the budget submission by parliament includes fiscal policies and detailed estimates of revenues and expenditures. The budget is approved before the start of the fiscal year and strict rules for in-year budget adjustments by the executive are established by law and applied. However, significant budget adjustments take place.**
	18.1. Scope of budget scrutiny	A	The parliamentary review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities, as well as details of expenditure and revenue as defined in the code of conduct.
	18.2. Parliamentary procedures for budget scrutiny	A	Law No. 17/2014 on the legislative institutions MD3 (MPR, DPR, DPD and DPRD) regulates the detailed parliamentary procedures to review budget proposals in advance of budget hearings. The law includes arrangements for public consultations. It also includes internal organizational arrangements, such as specialized review committees (Commissions I to XI), technical support (*Badan Keahlia*n DPR), and negotiation procedures.
	18.3. Timing of budget approval	A	State Finance Law No. 17/2003 requires parliament to approve budget proposals two months before the start of a fiscal year. Budgets were approved before the start of the year for the past three years.
	18.4. Rules for budget adjustments by the executive	A	The Annual State Budget Law sets the rules for in-year budget adjustments (virement) by the executive. The rules set strict limits on the extent and nature of amendments, and are adhered to in all instances (for example, Article 18 of Law No. 18/2016 on APBN FY 2017 sets the type of in-year budget adjustments that can be made by the government without parliamentary approval). Furthermore, the MOF regulates the different types of in-year budget adjustments and approval authority within the government (PMK No. 10/2017 for 2017 budget virements).
Pillar Five: Predictability and control in budget execution			
PI-19	**Revenue administration**	**C+**	**Taxpayers have access to information on their obligations and rights, including redress mechanisms. DG Tax and DG Customs and Excise have recently introduced modern risk management standards and techniques to improve revenue collection (a Compliance Risk Management system is currently being designed by DGT). The 2016 tax amnesty program was a successful initiative to increase compliance of targeted high potential taxpayers. However, the risk management approach in place still lack effectiveness and requires access to more comprehensive and reliable data to prove effective. Audits and investigations are available and are based on formal plans reported and consolidated from local tax offices to DG Tax audit department. The recorded stock of arrears is limited to 2% of revenues and all uncollectible tax arrears are depreciated.**
	19.1. Rights and obligations for revenue measures	B	The two major agencies responsible for more than 80% of the revenue collection have established numerous channels to provide broad access to information on obligations and rights, and facilitate the application of the tax and customs regulations. The mechanisms for redress process and procedures are handled by well-established and independent tax courts.

Indonesia's PEFA 2016 Assessment Based on PEFA Framework 2016			Assessment Based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
	19.2. Revenue risk management	C	The risk management approach currently in place within DG Tax covers high level risks but does not permit a structured and comprehensive compliance improvement approach for all large taxpayers across core taxes and tax obligations. The government is currently introducing modern practices and effective risk management methods to improve DG Tax and DG Customs and Excise administrations.
	19.3. Revenue audit and investigation	B	Massive efforts have been undertaken to expand the tax base through audit and investigation activities. The current risk-based approach targets selected large taxpayers and "risk-defined" cases, there is a documented compliance improvement reporting system from each tax auditor and taxpayers and clear guidelines from DG Tax on annual targets and quality assurance from DG Tax to ensure consistency in the audit approach.
	19.4. Revenue arrears monitoring	C	Based on the available information, the stock of revenue arrears is below 10% of the total revenue collection for 2016 and the revenue arrears older than 12 months are less than 75% of the total stock of arrears for the year. The definition of the collectability of the tax arrears is complex with the write off policy of uncollectible arrears can be more systemic, but the process of recording and monitoring the arrears is established.
PI-20	**Accounting for revenue**	**A**	**Revenue collection, transfer and reconciliation in compliance with TSA requirements and applicable regulations, and allow for timely and accurate information on revenue.**
	20.1. Information on revenue collections	A	With MPN G-2 system, DG Treasury obtains revenue data from accredited revenue-collecting banks and for all (tax and non-tax) central government revenues on a daily basis. The data can be accessed by collecting agencies (DG Tax, DG Custom and Excise and DG Budget).
	20.2. Transfer of revenue collections	A	The TSA requires all accredited revenue-collecting banks to transfer all central government revenue collection directly into TSA accounts controlled and consolidated by DG Treasury on a daily basis. Revenue collection outside TSA: post office or VAT are transferred to the main system.
	20.3. Revenue accounts reconciliation	A	Reconciliation and consolidation of all government collections/revenue deposits are conducted by DG Treasury with the receiving banks and revenue agencies on a monthly basis. Attachment of MOF Regulation No. 210/2013, a finance regulation on reconciliation, establishes the reconciliation procedure, and stipulates that reconciliation is to be done at the latest 10 days after the end of the month.
PI-21	**Predictability of in-year resource allocation**	**A**	**The TSA is in place for both revenues and expenditures. Cash balances are consolidated on a daily basis and cash forecasts are defined and updated monthly. Commitments are defined by law (DIPA). Two significant adjustments to the approved budget take place through the revised budget process and presidential instructions to line ministries through a fairly transparent process.**
	21.1. Consolidation of cash balances	A	The TSA allows the government to consolidate all of its cash balances on a daily basis within a consolidated account kept in BI. No other significant cash balances exist outside the TSA.
	21.2. Cash forecasting and monitoring	A	A cash flow forecast is prepared for the whole fiscal year and reflected in the DIPA document. The largest (in spending) line ministries and the MOF update their annual plans regularly through quarterly, monthly and daily cash flow forecasts. The cash management function is integrated as one of the SPAN FMIS functions.

Indonesia's PEFA 2016 Assessment Based on PEFA Framework 2016			Assessment Based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
	21.3. Information on commitment ceilings	A	DIPA defines and guarantees the ceiling for expenditure commitments or funds available for each spending unit to commit spending for one fiscal year. The availability of funds in DIPA is guaranteed by law. The only adjustments that can be made to the commitment ceilings need to be through the budget process (APBN-P).
	21.4. Significance of in-year budget adjustments	B	The revised budget (APBN-P) has been enacted every year since 2010 by parliament and leads to significant adjustments to the original budget. A second significant adjustment has taken place right after the revised budget was enacted in 2016 that gave line ministries some flexibility to decide on the budget cuts (self-blocking).
PI-22	**Expenditure arrears**	**B+**	**Stock of expenditure arrears is no more than 6% of the total expenditure for two of the previous three years (2014 and 2016). The aging of arrears cannot exceed 30 days by law and the rule is fully applied.**
	22.1. Stock of expenditure arrears	B	The stock of expenditure arrears in the form of short-term third-party liabilities is more than 2% but less than 6% in the last two completed fiscal years (2014 and 2015).
	22.2. Expenditure arrears monitoring	A	The data on the stock and composition of expenditure arrears are managed by the line ministries and the MOF. Expenditure arrears are required to be settled in the next fiscal year in less than 30 days after billing verification process is completed. Stock of arrears cannot be older than 30 days by law and the amount for pending payments suspended for litigation is covered by a contingency provision in the accounts and all recorded third party liabilities are liquidated in this legal timeframe
PI-23	**Payroll controls**	**C+**	**Payroll and personnel records are not integrated but reconciliations are conducted monthly. Changes to personnel records and payroll are duly authorized and processed by the MOF based on the information from the line ministries that can result in occasional delays. Partial payroll audits are conducted by BPK and regular controls are carried out by BKN resulting in regular adjustments to the payroll.**
	23.1. Integration of payroll and personnel records	B	The use of GPP Satker application (*Aplikasi Gaji PNS Pusat)* integrates the personnel database managed by the line ministries with the payroll calculation managed by the MOF on SPAN to ensure budget control and data consistency. The reconciliation takes place manually every month based on the line ministry data, and personnel hiring and promotion are authorized by the civil service agency, BKN.
	23.2. Management of payroll changes	B	payroll changes depend on line ministries' information andretroactive adjustments to the personnel records and payroll data still take place, but are minimal.
	23.3. Internal control of payroll	A	SPAN requires each individual public servant data to be registered and recorded in the (supplier) database module of SPAN for payroll payment to be processed. Adjustments in the SPAN module for payroll payments are restricted. The authority to change personnel records depends on the internal control systems in place at the line ministry level. Internal control systems in place at the line ministry level are considered effective and reliable, and external audit reports do not raise payroll control issues.

Indonesia's PEFA 2016 Assessment Based on PEFA Framework 2016			Assessment Based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
	23.4. Payroll audit	C	The line ministry internal auditors (IGs) are responsible for auditing the personnel data recorded in the GPP application and identifying ghost workers, while the MOF's Inspectorate General regularly reviews SPAN system to ensure the reliability of payroll transactions. The external auditor (BPK) has conducted only partial audits in the past three years and the government employee administration agency (BKN) carries out monthly reconciliations and adjustments.
PI-24	**Procurement management**	**C**	**Most procurement contracts are monitored centrally and maintained through the e-procurement system. An estimated 70% of contracts are awarded through competitive methods and three out of six key procurement information elements are complete and reliable. There is no independent procurement complaints system as the review of the complaint mechanism involves both procuring and contracting entities by law.**
	24.1. Procurement monitoring	C	Monitoring information is available only for contracts procured through e-tendering using the e-procurement system and representing 70% of total value of contracts.
	24.2. Procurement methods	B	The estimated total value of contracts awarded competitively through e-tendering together with the smaller value contracts awarded competitively through simplified lesser competitive methods outside of the e-procurement system, together represented at least 70% of the estimated total procurement spend in FY 2016.
	24.3. Public access to procurement information	C	Out of the six criteria, three fully meet the publication requirements: (i) legal and regulatory framework for procurement, (ii) government procurement plans, and (iii) bidding opportunities.
	24.4. Procurement complaints management	D	While the mechanism allows resolutions of complaints by an external higher authority at the appeal stage, the review of the complaints mechanism is not independent since the concerned parties (the procuring and contracting entities) are involved in reviewing such complaints.
PI-25	**Internal controls on non-salary expenditure**	**A**	**A comprehensive set of controls, including segregation of duties, is in place at the central government level and throughout the expenditure process. The functions and accesses are defined in the FMIS (SPAN) integrated budget and Treasury payment system with appropriations and commitment controls. Rules for payments are in compliance.**
	25.1. Segregation of duties	A	Definition of levels of authorization are effectively in place and segregation of duties is prescribed throughout the expenditure process managed in the SPAN system.
	25.2. Effectiveness of expenditure commitment controls	A	The central government has comprehensive commitment controls in place at the Spending Unit level and effectively limits commitments to actual cash availability and approved budget (DIPA) ceilings.
	25.3. Compliance with payment rules and procedures	A	Based on reports from internal control and external audit reports, all payments comply with rules and procedures. Exceptions are very limited and duly authorized by the MOF.

Indonesia's PEFA 2016 Assessment Based on PEFA Framework 2016		Assessment Based on PEFA Framework 2016
Pillar/Indicator/Dimension	**Score**	**Description of Requirements Met**
PI-26 Internal audit	**C+**	**Internal audit units are established in all agencies conducting mostly compliance audits. There are national audit standards but quality assurance process is effectively mostly in the MOF and BPKP, and more than 90 percent of internal audit plans are completed for all the sampled agencies. Management response to the internal audit findings is partial and only for the majority of findings, across all sampled entities.**
26.1. Coverage of internal audit	A	Internal audit is operational for all central government entities.
26.2. Nature of audits and standards applied	C	Internal audit activities in general are primarily focused on financial compliance and not on the adequacy and effectiveness of internal control.
26.3. Implementation of internal audits and reporting	A	Annual audit programs exist in all line ministries. Overall, the planned audits are completed and relevant reports distributed to the audited agencies for response and follow-up.
26.4. Response to internal audits	C	Management provides a partial response to audit recommendations for the majority of the entities audited.
Pillar Six: Accounting and reporting		
PI-27 Financial data integrity	**Score**	**Brief Justification for Score**
27.1. Bank-account reconciliation	**A**	**The introduction of SPAN facilitates the recording, consolidation and reconciliation of all financial transactions in a reliable and timely manner, and imposes discipline in the clearing of suspense accounts by line ministries and agencies.**
27.2. Suspense accounts	A	The implementation of the TSA and the use of FMIS (SPAN) produce daily bank reconciliation reports for all active central government bank accounts.
27.3. Advance accounts	A	Reconciliation of suspense accounts takes place at least monthly between the local treasury office (KPPN) and the spending units of the line ministries. Suspense accounts are cleared in a timely way and no later than at the end of the fiscal year.
27.4. Financial data integrity processes	A	Reconciliation of advance accounts takes place at least monthly between the local treasury office (KPPN) and the spending units of the line ministries. PMK No. 190/2012 regulates that all advance accounts are cleared on a monthly basis, as they have to be reported and cleared before new advances can be authorized. As stipulated by the Procurement Law, the advance on contracts is 10%.
PI-28 In-year budget reports	**B+**	**In-year budget execution reports are published on the MOF's website in a timely manner and all transactions are captured by SPAN, ensuring reliability of the reporting.**
28.1. Coverage and comparability of reports	A	The central government financial reports (LKPP) produced by SPAN are structured into 12 segments and 62 digits of Chart of Accounts (COA) covering all budget items. This allows direct comparison between realization and original budget. Financial reports produced by SPAN cover all transactions made by central government units and expenditures made from transfers to subnational governments.

Indonesia's PEFA 2016 Assessment Based on PEFA Framework 2016			Assessment Based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
	28.2. Timing of in-year budget reports	B	Monthly reports are extracted from the On-Line Monitoring SPAN (OM-SPAN) application by each line ministry within two weeks of the end of each month; Quarterly reports (spending reviews) are prepared by DG Budget and published with a very detailed analysis of the execution deviation by line ministry (economic classification); on a 6-monthly basis the government submits the accountability report (based on the APBN format) to parliament.
	28.3. Accuracy of in-year budget reports	A	There are no material concerns regarding data accuracy of the monthly closure and MOF Inspectorate General regularly reviews the financial accuracy of in-year budget execution reports. Information is covered at both commitment and payment stages.
PI-29	**Annual financial reports**	**C+**	**Annual financial reports are complete and include information on revenues, expenditures, and financial assets and liabilities, together with long term obligations. They are submitted to BPK within six months of the end of the fiscal year.** **There is no documentation on the alignment with international accounting standards.**
	29.1. Completeness of annual financial reports	A	Financial reports for the central government budget are prepared annually and are comparable with the approved budget. The use of the *e-recon* application has improved the comparability of reports.
	29.2. Submission of reports for external audit	A	The MOF has submitted the consolidated government financial reports for external audit in the last week of March for the past three years of 2014, 2015 and 2016.
	29.3. Accounting standards	C	While Indonesia's accounting standards are consistent with international standards, there is no explanation and disclosure on any variations and gaps between international and national standards in LKPP. The updated gap analysis has yet to be prepared and published.
Pillar One: External Scrutiny and Audit			
PI-30	**External audit**	**C+**	**National Audit Standards are consistent with ISSAIs and external audit reports are submitted to parliament within three months of their receipt by BPK. A formal response without comprehensive follow-up was issued by the executive, and BPK has direct access to most of the financial information on budget execution.**
	30.1. Audit coverage and standards	A	Financial reports of all central government entities are audited using national audit standards consistent with ISSAIs.
	30.2. Submission of audit reports to parliament	A	The external audit reports were submitted to parliament within three months of the receipt of the reports by BPK in 2014, 2015 and 2016.
	30.3. External audit follow-up	C	A formal response without comprehensive follow-up was issued by the executive to 2016 BPK's audit report.
	30.4. Supreme Audit Institution (SAI) independence	B	BPK operates independently of the executive and has access to most of the audited entities except for some restrictions regarding tax and fraud data.
PI-31	**Legislative scrutiny of audit reports**	**D+**	**In 2014, the Public Account Committee was abolished. The role of scrutiny of audit reports was thereafter distributed to each of the relevant commissions in parliament, but the effectiveness of parliamentary scrutiny on audit reports beyond LKPP is limited.**

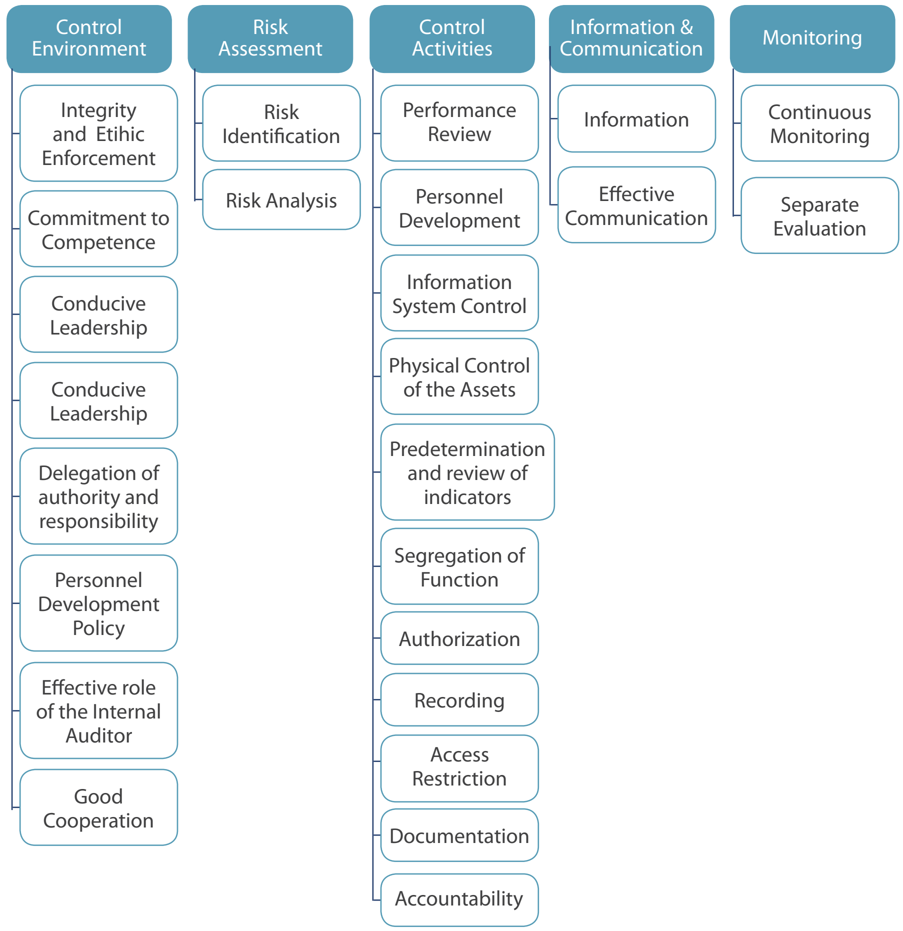
Indonesia's PEFA 2016 Assessment Based on PEFA Framework 2016		Assessment Based on PEFA Framework 2016
Pillar/Indicator/Dimension	**Score**	**Description of Requirements Met**
31.1. Timing of audit report scrutiny	C	Upon submission of audit reports by BPK to parliament, they are distributed to each relevant commission for scrutiny. Discussion on audit reports becomes part of the regular hearing agenda between commissions and their counterpart ministries. The law does not set out a period within which the review process should be completed. Based on a review of the commission hearings schedule, which sampled 28 reports out of 86, the process can take more than six months from receipt of the reports.
31.2. Hearings on audit findings	D	Hearings on key findings of BPK audit reports take place with all responsible officers from all audited entities that receive a qualified or adverse audit opinion or disclaimer. However, the hearings cannot be considered in-depth, as no representatives from BPK are present to explain the observations and findings. The absence of a Public Account Committee also impacts the depth of the hearings.
31.3. Recommendations on audit by parliament	C	Recommendations by the commissions are issued and recorded in the minutes of the hearings, along with points on other matters discussed during the hearings. The commissions do not maintain systematic tracking of the progress of the follow-up on each recommendation.
31.4. Transparency of parliamentary scrutiny of audit reports	C	Parliamentary regulation Article 246 regulates that all parliamentary meetings should be open to the public, unless declared otherwise. Regular hearings between commissions and counterpart ministries are open to the public through parliamentary TV. The minutes are also published on parliament's websites, although not in a timely or regular manner. Given the absence of a Public Account Committee, there is no audit scrutiny report provided to the full assembly of parliament. The minutes of the hearings can be accessed through the following link: http://www.dpr.go.id/akd/index/id/Risalah-Rapat-Komisi-I although these are not updated or systematically followed up.
TOTAL SCORE:	**31**	

Annex 2: Summary of Observations on the Internal Control Framework

Internal control components and elements	Summary of observations
1. Control environment	The regulatory framework is strong. State Treasury Law No. 1/ 2004 indicates the importance of issuing Government Regulation (PP) No. 60/2008 on the Internal Control System. All government agencies should develop detailed and comprehensive internal control systems. BPKP, as the National Government Internal Audit Institution is responsible for facilitating the development and implementation of internal control in all government agencies in Indonesia. BPKP has issued a comprehensive series of guidelines to develop and implement internal control systems. Based on the most recent evaluation of internal control maturity conducted by BPKP, the Ministry of Health (MoH), the Ministry of Education and Culture (MoEC), the Ministry of Public Works and Housing (MoPWH), the Ministry of Energy and Mineral Resources (MEMR) and the Ministry of Finance (MOF), achieve IC maturity levels of 2, 2, 2, 3 and 4, respectively. This evaluation was conducted based on the evaluation guidelines stipulated in Decree of the Head of BPKP No. 4/2016. These guidelines were developed by referring to several references, such as the Practice Guidelines of the Selecting, Using, and Creating Maturity Models of the International Internal Auditor (IIA) of July 2013, and the Internal Control Management and Evaluation Tool of the Government Accountability Office (GAO). The evaluation covers five components of internal control based on the COSO concept of internal controls. The five component are: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. Each of these components is broken down to subcomponents. The subcomponents relating to each component are listed in the figure below. Weighting is applied to the five components with weights of 30, 20, 25, 10, and 15, respectively, to make a total of 100 percent. This weighting is applied to the 25 subcomponents that, on their own, are each subject to measurement using a six-grade scale of maturity, as below: Component s of Internal Control

Maturity Level	Score	Scaling Interval
Non-existence	0	Less than 1.0
Initiative	1	1.0 to 2.0
Developed	2	2.0 to 3.0
Defined	3	3.0 to 4.0
Manageable and measurable	4	4.0 to 4.5
Optimum	5	Over 4.5

Internal control components and elements	Summary of observations



The measurement of each subcomponent is carried out using a triangulation method, including a self-assessment based on a questionnaire, followed by professional judgment by BPKP assessors, and finally corroborated by documentary review.

Based on the review methodology explained above, the control environment score, as an average of eight subcomponents scores of each of the five ministries, are as follows:

Ministry	Control Environment Score
MoH	2
MoEC	2
MoPWH	3
MEMR	3
MOF	4

The maturity of control environment showing strong leadership by the MOF may have contributed to the fact that PI-25.3 on compliance with payment rules and procedures was rated "A", given that all policies concerning payment rules and procedures were designed and administered by the MOF, and the assessment found that all payments complied with regular payment procedures. The BPK audit report found no present instances of non-compliance. The quality of senior management in the MOF probably played in role in the efforts of the GOI to obtain an unqualified opinion for its FY 2016 financial statements from BPK (Indonesia's Supreme Audit Institution).

Internal control components and elements	Summary of observations
1.1. The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization.	State Civil Servant Law No. 5/ 2014 requires civil servants (PNS and PPPK) to serve as planners, implementers and monitors of the roles of government in national development at all times through policies, professional public service, remaining free of politic interference, and clean of corruption, collusion and nepotism. The basic principles are following: basic values, a code of ethics, a code of behavior, commitment, moral integrity and responsibility, competence and professionalism. In BPKP's latest internal control maturity evaluation, this first subcomponent of the Control Environment the score of this subcomponent for each ministry as follows:

Ministry	Integrity and Ethic Enforcement Score
MoH	3
MoEC	2
MoPWH	4
MEMR	4
MOF	5

1.2. Commitment to competence	The State Civil Servant Law requires civil servants to commit to, and demonstrate competence in, conducting their duties and responsibilities. Evaluation of the Maturity of Internal Control carried out by BPKP shows the score of this subcomponent for each ministry as follows:

Ministry	Commitment to Competence Score
MoH	2
MoEC	3
MPWH	1
MEMR	4
MOF	4

1.3. The "tone at the top" (i.e., management's philosophy and operating style)	Article 4 of PP No. 60/2008 lays out the requirements for ministers/ heads of institutions to create and maintain an environment that promotes positive and conducive behavior in implementing internal controls in his/her working environment through: (i) upholding integrity and ethical behavior; (ii) committing to competency; (iii) providing positive leadership; (iv) establishing an organizational structure that fulfills the needs; (v) providing appropriate delegation of authority and responsibility; (vi) formulating and implementing a dynamic human resource development program; (vii) facilitating an effective role of the government's internal auditor; and (viii) creating a positive working relationship with other government institutions. The above mentioned upholding integrity and ethical behavior require the following as a minimum: (i) formulating and applying behavior standards; (ii) setting a good example in the implementation of behavioral rules at each leadership level in the organization; (iii) taking appropriate disciplinary action on deviations from policies and procedures, or from behavioral rules; (iv) explaining and accounting for any interventions in internal control processes, or failure to implement such processes; and (v) revoking policies or assignments that could encourage unethical behavior. The first two subcomponents, as reported above, along with the third, namely, conducive leadership, are often regarded as leadership tenets that bring about the "tone at the top". Therefore, there is no specific score for the tone at the top. Performance in the first three subcomponents must be assumed as representing performance of the tone at the top. In order to make it complete, below are the scores for Conducive Leadership, as reported by BPKP's Evaluation on IC Maturity Level.

Internal control components and elements	Summary of observations
	(see table below)

Ministry	Conducive Leadership Score
MoH	2
MoEC	3
MoPWH	4
MEMR	3
MOF	4

1.4. Organizational structure

Article 8 of PP No. 60/ 2008 indicates that the establishment of an organizational structure that fulfills the need should include the following: (i) attention to the scope and nature of the government institution's activities; (ii) clear roles and responsibilities within the government institution; (iii) clear explanations on internal relationships and reporting chains within the government institution; (iv) periodic evaluations and adjustments of the structure of the organization in line with changes in the strategic environment; and (v) an appropriate number of staff, particularly at the management level. All of the above must be carried out in accordance with the applicable provisions of the laws and regulations.

Maturity of this subcomponent is as follows

Ministry	Organizational Structure Score
MoH	3
MoEC	3
MoPWH	4
MEMR	3
MOF	4

The scores on this subcomponent are noticeably high. This may be attributed to the fact that all organizational structures of ministries are not designed and determined by the ministries themselves, but determined by a one-size-fits-all presidential decree. Later, bureaucratic reform undertaken by each ministry may lead a ministry to design a specific structure, but this effort must go through a thorough review in order to decide the size of the structure. This review is undertaken by the Ministry of State Apparatus Empowerment and Bureaucracy Reform (MENPan).

1.5. Human resource policies and practices

Article 10 of PP No. 60/2008 indicates that the formulation and application of a dynamic human resource development program should include the following: (i) the formulation of policies and procedures from recruitment up to resignation; (ii) background searches on candidate staff members during the recruitment process; and (iii) adequate periodic supervision of staff members. The formulation and application of human-resources development policies must be carried out in accordance with the applicable provisions of the laws and regulations.
Maturity of this subcomponent is as follows

Ministry	Personnel Development Score
MoH	2
MoEC	3
MoPWH	4
MEMR	3
MOF	4

Internal control components and elements	Summary of observations
2. Risk assessment	Government Regulation No. 60/ 2008 indicates that ministers/ heads of government institutions are required to conduct risk assessments. These risk assessment should consist of: (i) an identification of risks; and (ii) risk analysis. For the purpose of conducting risk assessments, the leadership of a government institution must identify: (i) the objectives of the government institution; and (ii) the objectives of the activities, in line with the applicable provisions of the laws and regulations. The most significant challenge that BPKP has faced in developing internal controls is the difficulty in obtaining sufficient time from the related parties to conduct the internal control self-assessment session. Hence, this component scores lowest in its maturity score. The average score for this component out of 75 ministries and other government institutions being evaluated by BPKP is only 1.5.
2.1. Risk identification	Risk identification is a component of risk assessment. Article 16 of PP No. 60/ 2008 indicates that risk identification should be conducted in all entities with the following consideration: (i) using a methodology that is in line with the objectives of the government institution and the objectives at the activities level in a comprehensive manner; (ii) using adequate mechanisms to identify risks arising from both internal and external factors; and (iii) the assessing any other factors that could increase risk. In 2012, BPKP issued PER-688/K/D4/2012, detailing guidelines for conducting risk identification and risk assessment for all government institutions Maturity of this subcomponent is as follows

Ministry	Risk Identification Score
MoH	1
MoEC	2
MoPWH	0
MEMR	3
MOF	4

	With the MoH and the MoEC among the highest spending ministries, their scores of 1 and 0, respectively, may have been cause for concern. BPKP has prioritized the issue of low scores in risk assessment by urging the senior management of ministries to conduct an internal control self-assessment.
2.2. Risk assessment (significance and likelihood)	PER-688/K/D4/2012 indicates that identified risks should be categorized based on their operational level risk assessment. The criteria include a decision on acceptable and tolerable risk levels. Significance and likelihood are two terms used in risk analysis, particularly in creating the risk control matrix, as these two terms are the main variables in determining the risk priority. Hence, the risk assessment is best viewed as a component and its maturity is explained above. As an example illustrated by the PEFA Assessment PI 19.2 Revenue Risk Management is rated "C". DG Tax is still working on the full implementation of a structured and systematic risk assessment process to categorize and quantify taxpayers' compliance risks.

<table>
<tr><th>Internal control components and elements</th><th>Summary of observations</th></tr>
<tr><td>2.3. Risk evaluation</td><td>Risk evaluation is irrelevant in discussing the two subcomponents of risk assessment. As detailed in the figure below, the second subcomponent, namely risk analysis, is the nearest term to risk evaluation. Therefore, risk evaluation is taken here to be a synonym of the risk analysis subcomponent.

Maturity of this subcomponent is as follows

<table>
<tr><th>Ministry</th><th>Risk Analysis Score</th></tr>
<tr><td>MoH</td><td>1</td></tr>
<tr><td>MoEC</td><td>2</td></tr>
<tr><td>MoPWH</td><td>0</td></tr>
<tr><td>MEMR</td><td>1</td></tr>
<tr><td>MOF</td><td>4</td></tr>
</table>

In the PEFA Assessment, PI 26.3 - Implementation of Internal Audits and Reporting is rated "A".</td></tr>
<tr><td>2.4. Risk appetite assessment</td><td>Risk appetite assessment is identified in PP No. 60/2008. It is always explained to clients of the internal control self-assessment that it depends on their appetite for risk to determine the weighting of the likelihood and impact of a certain risk. The weights are then multiplied to find the weight of the risk being assessed. It is clear that risk appetite is inherently taken into account in the form of the total weight of a risk. This is why there is no specific score applied to this assessment.</td></tr>
<tr><td>2.5. Response to risk (transfer, tolerance, treatment or termination)</td><td>Response to risk is viewed as the end result of the risk assessment. BPKP's guidelines address this aspect in the setting of an action plan that consists of control activities. Therefore, this topic is assessed as part of the internal control activities component.</td></tr>
<tr><td>3. Control activities</td><td>Article 18 of PP No. 60/2008 has a section setting out control activities. The leadership of a government institution is required to carry out control activities in line with the institution's size, complexity and the nature of its duties and functions. The control activities must, at a minimum, reflect the following:

a. The control activities must focus on the main functions of the government institution.
b. The control activities must be linked to the risk-assessment process;
c. The control activities selected should take into account the characteristics of the government institution;
d. Policy and procedures must be written down;
e. The written procedures must be implemented;
f. Control activities must be periodically evaluated to ensure that they are functioning as required.

Control activities are in the third component, which has 11 subcomponents based on PP No. 60 / 2008. However, unlike the risk assessment, this subcomponent scored higher, perhaps due to the fact that several of the activities are common control activities expressed in old but familiar terminology of the management control system.</td></tr>
</table>

Internal control components and elements	Summary of observations
3.1. Authorization and approval procedures	As described in PI-25-2, Government Regulation No. 45/2013 and MOF Regulation No. 190/2012 lay out the rules related to authorization and approval procedures that need to be followed by line ministries to process payments. Budgeting and Treasury are two PFM functions in Indonesia that are heavily regulated. The MOF takes a lead in regulating these aspects. DG Treasury, in its efforts to strengthen internal controls, introduced a formal commitment control system in line ministries in the form of the IFMIS (SPAN) application. With the SPAN, commitments can be recorded before the expenditure can be incurred, so that it 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. SPAN is also 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 is linked to the cash plan in the DIPA, so that the available cash balance can always be updated. The SPAN system to apply encumbrance will also be used for carry-forward over multi-year contracts. The heavy regulation on authorization and approval procedure is reflected on the maturity score as follows: Ministry: Risk Analysis Score MoH: 3 MoEC: 3 MoPWH: 3 MEMR: 3 MOF: 4 Additionally PI 23 on Payroll Controls is rated "C+". The payroll is supported by full documentation for all changes made to personal record every month and sufficient control are in place to ensure integrity of payroll data at central level.
3.2. Segregation of duties (authorizing, processing, recording, reviewing)	PI 25.1 on Segregation of Duties is rated "A". As described in PI-25.1, based on Article 58 of Treasury Law No. 17/2003, the President as head of the government is required to establish an internal control system to ensure the transparent and accountable financial management of budget implementation. In the law, the segregation of duties is prescribed in all processes of budget implementation. Detailed explanation and implementation guidelines, including the roles and responsibilities of budget holders, commitment makers, payment verification staff, treasurers, and accounting staff in each ministry, are available in MOF Decree No. 190/ 2012. Its implementation in general is widely understood and complied with. Authorization to access budget held by budget holders (KPA) is usually held by either Echelon 1 or Echelon 2, depending on the size of the ministry. The KPA is supported by a commitment maker who processes each transaction. Recording of transactions is handle by a treasurer, who administers all commitments and the use of funds. Payment verification staff verify and review all requests for payment for documentation completeness, budget availability, and compliance with the contract and calculation. The explanation above can be substantiated by the maturity score of segregation of duties as follows: Ministry: Risk Analysis Score MoH: 3 MoEC: 3 MoPWH: 4 MEMR: 3 MOF: 4

Internal control components and elements	Summary of observations
3.3. Controls over access to resources and records	This element is strongly assessed in PEFA Assessment: PI 25.3 on compliance with payment rules and procedures, and PI 27.4 on financial data integrity processes both rated "A". Article 39 of PP No. 60/2008 indicates that the head of a government institution is required to restrict access to ensure accountability for resources and records. In restricting access to resources and records, the head of a government institution is required to provide access to authorized officers, and to conduct periodic reviews of such restrictions with a view to verifying their effectiveness. In ensuring accountability with regards to the use of resources and records, the head of a government institution is required to designate particular staff members as being responsible for the safe keeping of resources and records, and conduct periodic reviews with a view to verifying the effectiveness of such arrangements. The widespread use of computerized management systems, including planning, budgeting, treasury, accounting and other reporting, has meant that government officials need to be familiar with information and technology security protocol. One main principle in this security protocol is limited access to the system. Taken as a whole, this limited access granting practice scores as follows: **Ministry** — **Risk Analysis Score** MoH — 3 MoEC — 3 MoPWH — 3 MEMR — 3 MOF — 4
3.4. verifications	This element is strongly assessed in the PEFA Assessment. PI 28.3 on accuracy of in-year budget reports is rated "A". Articles 21, 29 and 31 of PP No. 60/2008 indicate that internal control over the information system must, at a minimum, cover: (i) the entry and processing of all authorized transactions; and (ii) data reconciliations to verify data completeness and comprehensiveness. Verification is not a specific subcomponent of internal control activities. However, it is carried out automatically in Indonesia's computerized system environment. Even in a manual system, checking and rechecking is common practice, such as in letter drafting, withdrawal approval, report drafting, and so on. This is carried out in order to make sure that no important transaction goes unchecked, and that each transaction is recorded accurately and in good time. Hence, the conditions of this verification are found in several subcomponents, such as transaction authorization and accurate recording.
3.5. Reconciliations	This element is strongly assessed in PEFA Assessment. PI 27 on financial data integrity is rated "A". Bank reconciliation, suspense accounts reconciliation, and the clearing of advance accounts are taking place at aggregated and detailed level and in a timely manner. Article 44 of PP No. 60/2008 indicates that ongoing monitoring must be carried out through routine management activities, supervision, comparison, reconciliation and other actions concerned with the performance of duties. Therefore, this subcomponent is relevant to the monitoring component.

Internal control components and elements	Summary of observations
3.6. Reviews of operating performance	Article 47 of PP No. 600/2008 indicates that, in order to strengthen and support the effectiveness of the government's internal control system, the following activities must be undertaken: (i) internal audit over the discharge of the duties and functions of a government institution, including accountability for the utilization of state funds; and (ii) maintenance of the government's internal control system. Performance management and reporting have been mandatory since Presidential Instruction No. 7/1999. Strategic planning, performance management and performance reporting must be carried out by all central and local government institutions. Law No. 17/2003 on State Finance, further elaborated in Government Regulation No. 8/2006 on Financial and Performance Reporting, states that Indonesia is adopting performance-based budgeting. These regulations are attributable to the need for a review of operating performance. This review has scored maturity as follows: Ministry: Risk Analysis Score MoH: 2 MoEC: 3 MoPWH: 4 MEMR: 3 MOF: 5 The PEFA Assessment provides the following information on performance: PI 8.1 and PI 8.2 on performance plans for service delivery are both rated "B" but PI 8.4 on performance evaluation is rated "C" as performance reports are not published. PI 26.2 on nature of audit and standard applied is rated "C" as the focus of internal audit activities is mainly on financial compliance.
3.7. Reviews of operations, processes and activities	Review of operations, processes and activities is not a specific subcomponent of control activities. However, it is logically carried out in daily operations, albeit under alternative names. Performance reviews and the review of indicators are instances of this. Hence, the condition of these reviews can be assessed by examining at the score of maturity of the determination of the indicator and its review below. Review of operations, processes and activities as represented by score of determination and review of indicator as follows: Ministry: Risk Analysis Score MoH: 2 MoEC: 3 MoPWH: 3 MEMR: 3 MOF: 5
3.8. Supervision (assigning, reviewing and approving, guidance and training)	Review of operations, processes and activities is not a specific subcomponent of control activities. However, it is logically carried out in daily operations but under alternative names. Performance reviews and the review of the indicator are instances of this.

Internal control components and elements	Summary of observations
4. Information and communication	Articles 41 and 42 of PP No. 60/2008 indicate that the head of a government institution is required to identify, record and communicate information by the appropriate means and in a timely fashion and the communication of information must be carried out effectively. Therefore, at a minimum, the head of the institution must (i) provide and make use of various means of communication; and (ii) continuously manage, develop and update the information system. This fourth component is a subject of maturity assessment. The latest report of maturity assessment shows this component score as follows: Ministry: Risk Analysis Score MoH: 3 MoEC: 3 MoPWH: 3 MEMR: 3 MOF: 4
5. Monitoring	The monitoring function is generally assessed with mixed performance in PEFA Assessment: - PI 10 on fiscal risk reporting is rated "C" as reports are not available in a timely manner. - PI 11.4 on investment project monitoring is rated "D". - PI 12.1 and PI 12.2 on public assets monitoring are rated as "A" and "C", respectively . - PI 19.4 on revenue arrears is rated as "C". - PI 22.2 on expenditure arrears is rated as "A". - PI 24.1 on procurement monitoring is rated as "C". Article 43 of PP No. 60/2008 indicates that the head of a government institution is required to monitor the operation of the internal control system. Monitoring of the internal control system must be carried out in an ongoing manner, and involve separate evaluation and follow-up actions on the recommendations and findings of audits and reviews. As a component, monitoring is seen as critical in ensuring the effectiveness of internal control. Every internal auditor should implement the monitoring of the effectiveness of internal control, either as part of its audit, or as a special consulting task. However, as shown by report on Dimension 26.2, not all samples of internal audit reports show a focus on adequacy and effectiveness of internal control. The internal audit seems to focus more on financial compliance. Monitoring, in an integral approach of internal control, must be directly affected by the existence of a control matrix that lists control activities to be carried out. Ministry: Risk Analysis Score MoH: 1 MoEC: 3 MoPWH: 4 MEMR: 2 MOF: 4 The score above is somewhat consistent with the rather low score in risk management.

Internal control components and elements	Summary of observations
5.1. Ongoing monitoring	Article 44 of PP No. 60/2008 indicates that ongoing monitoring must be carried out through routine management activities, supervision, comparison, reconciliation and other actions concerned with the performance of duties. In PFM, ongoing monitoring is facilitated by a computerized system. The huge system that has been developed by the MOF and is now being utilized by all central government institutions is the State Budgeting and Treasury System (SPAN). The contribution of SPAN as a comprehensive and integrated computerized system is vital in processing central government transactions. Other than SPAN, each institution is believed to have also been conducting ongoing monitoring, at least for day-to-day disbursement, performance agreement realization and financial reporting.

Ministry	Risk Analysis Score
MoH	2
MoEC	3
MoPWH	3
MEMR	3
MOF	4

Internal control components and elements	Summary of observations
5.2. Evaluations	Article 45 of PP No. 60/2008 indicates that separate evaluation must be carried out through individual assessments, reviews and tests of effectiveness in respect of the internal control system. Separate evaluations may be conducted by internal government control officers or third parties external to the government. Separate evaluation may be conducted as an integral and inseparable part of this government regulation. The maturity assessment on this subcomponent result in scores as follows:

Ministry	Risk Analysis Score
MoH	1
MOEC	3
MoPWH	5
MEMR	2
MOF	4

Internal control components and elements	Summary of observations
5.3. Management responses	The PEFA Assessment shows that the level of management response to monitoring and evaluation could be improved. PI 26.4 on response to internal audits and PI 30.3 on external audits follow up are both rated "C". Article 46 of PP No. 60/2008 indicates that management should conduct follow-up action on the findings of audits and reviews immediately undertaken in accordance with the prevailing mechanisms. Management responses is not a specific subcomponent of control activities. However, it is logically carried out once the monitoring delivers a recommendation that should be followed by the management. However, the fact that the control matrix and its related control activities received a low score may indicate that the management response needs more attention.

Annex 3: Sources of Information

3A: List of Persons Interviewed or Consulted

No	Name	Title / Unit
Directorate General of Budget		
1.	Agung Widiardi	Directorate of Budget System
2.	Langgeng Suwito	Directorate of Budget System
3.	Kunta Nugraha	Directorate of Budget Formulation
4.	Adi Nugroho	Directorate of Budget Formulation
5.	Lisno Setiawan	Directorate of Budget Formulation
6.	Kandha Aditya	Directorate of Budget Formulation
7.	Iga Krisna M	Directorate of Budget Formulation
8.	Agung Lestianto	Directorate of Budget Formulation
9.	Agung Hidayat P.	Directorate of Budget Formulation
10.	Mahmudi	Directorate of Non-Tax Revenue
Directorate General of Treasury		
11.	Mauritz Cristianus	Directorate of Accounting and Reporting
12.	Noor Faisal	Directorate of Cash Management
13.	Syaiful	Directorate of Cash Management
14.	Urip Burhan	Directorate of Information System and Treasury Technology
15.	Tedy Imam Saputro	Directorate of Budget Implementation
16.	Mei Ling, SE. Ak, MBA	Directorate of Accounting and Reporting
17.	Arief Rahman Hakim	Head of Sub-Directorate for Research and Development and Institutional Coordination
18.	Eko Hartono H.	Directorate of Accounting and Reporting
Fiscal Policy Agency		
19.	Ginanjar Wibowo	Division of Central Government Expenditure – Budget Policy Center
20.	Arti	Division of Tax Revenue, Budget Policy Center
21.	Ardi Sugiyarto	Division of Tax Revenue, Budget Policy Center
22.	Indra Budi Suchaya	Macro Economic Policy Center
23.	Rofiyanto Kurniawan	Head of Division of Tax Revenue, Budget Policy Center
24.	Wahyu Utomo	Head of Sub-Directorate of Central Spending
Directorate General of Fiscal Balance		
25.	Putut Hari Satyaka	Director, Directorate of Fund Balance
26.	Esthi Budilestari	Head, Sub-directorate of Sub-national financial data
27.	Diah Sarkorini	Head, Division of Inter-Organizations Cooperation
28.	Eko Nur Subagyo	Sub-directorate of Sub-national Financial Information
29.	Arman Gunawan	Sub-directorate Information Technology
Directorate General of Taxes		
30.	Arfan	Secretariat
31.	Yon Arsal	Director, Directorate of Tax Potential, Compliance and Revenue
32.	Harry Gumelar	Director, Directorate of Internal Compliance and State Apparatus Transformation

No	Name	Title / Unit
33.	Ngadenan	Finance Bureau
34.	Amran	Directorate of Tax Potential, Compliance and Revenue
35.	Anggrah	Directorate of Internal Compliance and State Apparatus Transformation
Directorate General of Custom and Excise		
36.	Erwin Hariadi,	Head of Revenue Monitoring Bureau Section
Directorate General of Asset Management		
37.	Dodi Iskandar	Secretary to DG Asset Management
38.	Sephyanto	State Asset
39.	Boris S.U.	State Asset
Directorate General of Budget Financing and Risk Management		
40.	Erwin Ginting	Head of Sub-directorate, Directorate of Planning and Financing Strategy
41.	Djarot Hartono	Head, Sub-directorate of Directorate of Monitoring and Evaluation
42.	Hani W	Directorate State Finance Risk Management
43.	Ria Fatmasari	Directorate of State Finance Risk Management
Bureau of Communication and Information Service		
44.	Titi S.	Bureau of Communication and Information Service
45.	Andrens Pinen	Bureau of Communication and Information Service
46.	Rumanty Pardede	Bureau of Communication and Information Service
Electronic Public Procurement Service Unit		
47.	Rachman Sukri,	Staff
Project Secretariat and Support Unit under the Secretary General		
48.	Yulia Candra Kusumarini,	Treasurer
49.	Mila V. Gregorio	Project Management Adviser
Inspectorate General		
50.	*Ari Sufianto*	*Junior Auditor, Inspectorate VII*
National Public Procurement Policy Agency		
51.	Arso Hari Wardono	
National Development and Planning Agency		
52.	Rosy Wediawaty	Directorate Public Finance and Monetary Analysis
Ministry of State Apparatus and Bureaucracy Reform		
53.	Drs. Teguh Widjinarko, MPA.	Chief Expert for Work Ethics
54.	Dra. Damayani Tyastianti, M.Q.M.	Assistant Deputy for Implementation Coordination, Policy and Evaluation of Public Service, Regional III
Ministry of Cultural and Education		
55.	Fuad Wiyono	Lead Auditor, Inspectorate General
Ministry of Health		
56.	Heru Arnowo	Secretary of Inspector General, Inspectorate General
Ministry of Energy and Mineral Resources		
57.	Harya Adityawarman	Secretary of Inspector General, Inspectorate General
Ministry of Public Works and Housing		
58.	Netti Malemna	Secretary of Inspector General, Inspectorate General
59.	F. Dini Ambarasari, SIP, MSi,	Head of International Cooperation Section

No	Name	Title / Unit
Finance and Development Supervisory Agency		
60.	Amdi Veri Darma	Directorate of Monitoring of Loan and Donors' aid, Deputy of Monitoring of Economic Affairs
The Supreme Audit		
61.	Juska Sjam	Director of Audit Evaluation and Reporting
62.	Teguh Widodo	
Indonesia Parliament		
63.	Djaka Dwi Winarko	Head of Public Relations and News Information, Secretary General
National Civil Service Agency		
64.	Bajoe Loedi Hargono	Director of Civil Servant Information System Development
Committee for Acceleration Priority Infrastructure Delivery		
65.	Rainier Haryanto	Program Director
66.	Wilson Kurniawan	Senior Advisor

List of participants in the 1st Consultation Meeting, May 4-5, 2017

No.	Title	Name	Institution
1.	Mr.	Arso Hadi Wardono	LKPP
2.	Mr.	Husnirokhim	Ministry of Public Housing and Public Works
3.	Ms.	Netti Malemma	Ministry of Public Housing and Public Works
4.	Mr.	Rintis Nanda P	Ministry of Energy and Mineral Resources
5.	Mr.	Juska Meidy	The Supreme Audit
6.	Mr.	Teguh Widodo	The Supreme Audit
7.	Mr.	Amdi V. Dharma	Finance and Development Supervisory Agency
8.	Ms.	Sri Susilorini	Inspectorate General, Ministry of Foreign Affairs
9.	Ms.	Mirna Putriantiwi	Inspectorate General, Ministry of Health
10.	Mr.	Irwansyah	Inspectorate General, Ministry of Health
11.	Mr.	Sri Susilarini	Inspectorate General, Ministry of Health
12.	Ms.	Indira	Inspectorate General, Ministry of Energy and Mineral Resources
13.	Mr.	Fuad Wiyono	Inspectorate General, Ministry of Cultural and National Education
14.	Mr.	Ardan Perwitasari	Secretary General Office, Indonesia Parliament
Ministry of Finance			
15.	Mr.	Wawan Hernawan	EAS DJPPR
16.	Mr.	Ardi Sugiyarto	Fiscal Policy Agency
17.	Mr.	Risyaf Fahreza	Fiscal Policy Agency
18.	Mr.	Ahmad Nasution	DIT SPP
19.	Ms.	Dini Privea P	DIT SPP
20.	Mr.	Wawan Sumarjo	DG Budget
21.	Mr.	Anggi Gumilang	Planning and Finance Bureau

No.	Title	Name	Institution
22.	Mr.	Rachman Sukri	LPSE
23.	Mr.	Wahyu Widjayanto	DG Fiscal Balance
24.	Mr.	Triyanto	DG Fiscal Balance
25.	Mr.	Heru Ismanto	Planning and Finance Bureau
26.	Mr.	Muh. Hasbi H	DG State Asset
27.	Mr.	Neil Prayoga	DG State Asset
28.	Mr.	M. Iwan. S	DG Budget Financing and Risk Management
29.	Mr.	Muh. Hasbi H	DG of State Asset
30.	Mr.	Djarot	DG Budget Financing and Risk Management
31.	Mr.	Arianto	DG Budget Financing and Risk Management
32.	Mr.	Prima Ayuningtyas	PKP, DG Taxes
33.	Ms.	Tantri Dewi Kartikawati	PKP, DG Taxes
34.	Mr.	Terang Sapardi	PKP, DG Taxes
35.	Mr.	Andri Noval	KITSDA, DG Taxes
36.	Ms.	Ratna Widiyanti	DG Taxes
37.	Ms.	Yulia C. Kusumartini	Project Secretariat and Support Unit
38.	Mr.	A. Nur	Planning and Finance Bureau
39.	Mr.	Arif R.N	Planning and Finance Bureau
40.	Mr.	Najmudin	Planning and Finance Bureau
41.	Mr.	Malul Azam	Planning and Finance Bureau
42.	Mr.	Lisno S	DG Budget
43.	Mr.	Hendro Susbiyanto	DJPB - PKN
44.	Mr.	Feryal Resque	DJPB - PKN
45.	Mr.	Arman Gunawan	DJPK - TI
46.	Mr.	Syawarya Ardha	DJPK - EPIKN
47.	Mr.	Edi Purwanto	Electronic Procurement Unit
48.	Ms.	Rumanty Pardede	Bureau of Communication and Information Service
49.	Mr.	Cs. Purwowidhu	Planning and Finance Bureau
50.	Ms.	Damayani T	Ministry of State Apparatus and Bureaucratic Reform
51.	Mr.	Pandji Saputra	Ministry of State Apparatus and Bureaucratic Reform
52.	Mr.	Moh. Hatta	PSSU
53.	Mr.	Adinugroho	Directorate of Budget Formulation, DG Budget
54.	Mr.	Agung Lestianto	Directorate of Budget Formulation, DG Budget
55.	Mr.	Erwin Hariadi	DIT.PPS-DG Customs and Excise
56.	Mr.	Ahmad Tohir	DIT PPS-DJBC
57.	Mr.	Harri Andria	Finance Unit, DG Taxes
58.	Mr.	Rizal Fauzi	Finance Unit, DG Taxes

List of participants in the 2nd Consultation Meeting August 23, 2017

NO.	TITLE	NAME	INSTITUTION
1	Mr	Purwiyanto	MOF
2	Mr	Rachma Sukri	PUSAT LPSE
3	Mr	Edi Purwanto	PUSAT LPSE
4	Mr	Arman Gunawan	EPIKD - DJPK
5	Mr	Rudy Widodo	DJPB
6	Mr	Yon Arsal	DJP
7	Mr	Heri Setaiwan	DJPPR
8	Mr	Maurtiz Crm	DJPB, APK
9	Mr	Izharul Haq	Dit PKN, DJBP
10	Mr	Wahyudi	EPIKD - PKP
11	Ms	Dian Mayasari	Dit PDPPI - DJPPR
12	Mr	Deni P. Maharta	Dit PDPPI - DJPPR
13	Mr	M. Sharaqi Zaman	Dit. PRKN - DJPPR
14	Mr	Amran	DJP
15	Mr	Ari Sufiarti	ITJA
16	Mr	Kandha	DJA
17	Ms	Dini Pp	DJPPPR -EAS
18	Mr	Wawan H	DJPPR - EAS
19	Mr	Setia P	DJPBN
20	Mr	Wahyu Widjananto	DJPK
21	Mr	Ginanjar W	PKAPBN
22	Mr	M. Nuh	DJPB - Dit PA
23	Ms	Susanti Dewi	Dit PA/DJPBN
24	Mr	Malul Azam	ROCANKEU
25	Ms	Fatati Sriwahyuni	DEAS - DJPPR
26	Mr	Kun Haribowo	Dit. PPS - DJBC
27	Mr	Munthea J.	Dit. PPS - DJBC
28	Mr	Hellington	Dit. PNBP - DJA
29	Ms	Kurniasari T.A.	Ditjen - ROCANKEU
30	Mr	Farhul Kami	PKEM – BKF
31	Mr	Widiyanto	PKEM - BKF
32	Mr	Ardiansjah	Dit. PNBP - DJA
33	Mr	Erwin Hariadi	DJBC
34	Mr	Boris Satriyo U.	Dit.BMN, DJKN
35	Mr	Dhanu	Dit. BMN, DJKN
36	Ms	Mila V. Gregorio	PSSU

3B: Sources of Information by Type or by Indicators

Main References

PI-1: Aggregate Expenditure Outturn

a. Budget Financial Note 2014-2016
b. Audited State Financial Statement (LKPP) 2014-2016
c. Unaudited government financial statement 2016

PI-2: Expenditure Composition Outturn

a. Budget Financial Note 2014-2016
b. Audited State Financial Statement (LKPP) 2014-2016
c. MOF Regulation No. 114/PMK.02/2016 on Budget Classification
d. Unaudited government financial statement 2016

PI-3: Revenue Outturn

a. Budget Financial Note 2014-2016
b. Audited State Financial Statement (LKPP) 2014-2016
c. Unaudited government financial statement 2016

PI-4: Budget Classification

a. Law No. 17/2003 on State Finance
b. MOF Regulation No. 114/PMK.02/2016 on Budget Classification
c. MOF Regulation No. 214/PMK.05/2013 on Chart of Account (Bagan Akun Standar/BAS)
d. MOF Regulation No. 127/PMK.02/2015 on Budget Classification
e. Academic Paper on Chart of Account (Bagan Akun Standar/BAS)
f. Law No. 1/2004 on State Treasury
g. Government Regulation No. 71/2010 on Government Accounting Standards

PI-5: Budget Documentation

a. 2016 NK RAPBN, Financial Statement and Draft of State Revenue and Expenditures FY 2017
b. 2015 NK APBN, Financial Statement and State Revenue and Expenditures FY 2015
c. 2015 NK RAPBN, Financial Statement and Draft of State Revenue and Expenditures FY 2016
d. Law No. 14/2015 on State Revenue and Expenditures FY 2016
e. Law No. 18/2016 on State Revenue and Expenditures FY 2017
f. Law No. 27/2014 on State Revenue and Expenditures FY 2015

PI-6: Central Government operations outside financial reports

a. MOF Regulation No. 252/PMK.05/2014 on Account of Ministry
b. MOF Regulation No. 67 / PMK.05/2007 on Control of Government Account
c. Presentation on Overview of Public Services Agencies in Indonesia
d. MOF Regulation No. 58 /PMK.05/2007 on Control of Ministry Account
e. Government Close 9,294 Illegal Account (Article from Kompasiana.com)
f. Slide - No. 252/PMK.05/2014, Presentation – Account of Ministry
g. MOF Regulation No. 19/2011 on natural resources sharing fund
h. Government Regulation No. 10/2011 on guidelines of foreign debt and grant

PI-7: Transfer to Subnational Government

a. Law No. 33/2004 on Financial Balance between local and central government
b. Law No. 14/2014 on Village
c. Law No. 14/2015 on State Budget 2016
d. Government Regulation No. 55/2005 on Balancing Fund
e. Government Regulation No. 60/2014 on Village Fund originating from state budget

f. Government Regulation 17/2017 on strategic (five-year) plan and medium-term budget
g. Presidential Decree 137/2015 on details of 2016 budget allocation
h. MOF Regulation No. 187/PMK.07/2016 on Management of Transfer to the region and Village Fund
i. MOF Regulation No. 29/2016 on Guidelines for Allocation, Channeling, Utilization, Monitoring and Evaluation of Village Fund
j. Allocation Module - DAK 2015
k. Presentation, Policy Direction - DAK 2017
l. Examples of DAK Proposal
m. Leaflet on DBH, DAU, and DAK
n. Central Government Financial Report (Audited) for FY 2013-2015
o. Presidential Decree 137/2015 on details of 2016 budget allocation
p. Date of Posting of Transfer Information in DJPK website
q. MOF Decree No. 48/2016 on management of transfer to the region and village fund
r. Presidential Regulation No. 10/2016 on Transparency

PI-8: Performance Information for Service Delivery

a. Presidential Regulation No. 2/2015 on the National Medium-Term Development Plan (RPJMN) 2015-2019.
b. Presidential Regulation no. 45/2016 on RKP 2017
c. Financial Note and RAPBN 2017: Book 2
d. Government Regulation no. 8/2006 on Financial and Performance Reporting for Government Institutions
e. President Decree No. 29/2014 on Performance Accountability System for Government Institutions
f. Financial Note and RAPBN 2017: Book 2
g. LAKIP Ministry of Education and Culture, 2016
h. LAKIP Ministry of Health, 2016
i. LAKIP Ministry of Public Works, 2016
j. LAKIP Ministry of Transportation, 2016
k. LAKIP Ministry of Social, 2016
l. LAKIP Ministry of Agriculture, 2015
m. LAKIP Ministry of Research, Technology and Higher Education, 2015
n. LAKIP Ministry of Religious Affairs, 2015
o. Minister of Finance Decree: PMK No. 177/PMK.05/2015
p. BOS Website – http://bos.kemdikbud.go.id/index.php/home
q. IFLS (Indonesia Family Life Survey): 2015 Questionnaires
r. President Decree No. 29/2014 on Performance Accountability System
s. Minister of State Apparatus Empowerment and Bureaucracy Reform Decree (Permenpan) no. 12/2015 on guidance to evaluate the implementation of government performance accountability system (SAKIP).

PI-9: Public Access to fiscal information

a. Link to APBN 2017
b. Info Availability of Summary of Budget Proposal CY 2017
c. Info Availability of Summary of Budget Proposal CY 2016
d. LKPP 2015
e. Implementation FY 2016
f. Info Availability of Annual Budget Execution Report CY2016
g. Link to Budget Year Report
h. Link to UU APBN FY 2016
i. Information Commission Decree No. 1/2010 on Public Information Standards
j. Law No. 14/2008 on Public Information Disclosure
k. Link to UU APBN FY 2016
l. *Sidang Paripurna* DPR *Sepakati Asumsi Makro* RAPBN 2017 (Parliament Plenary Session Agrees on Macro Assumptions)

PI-10: Fiscal Risk Reporting

a. LKPP 2015, Annex 19.A: Summary of SOEs' (BUMN) Income Statement
b. LKPP 2015, Annex 19.B: Summary of SOEs' (BUMN) Balance Sheet
c. LKPP 2015, Annex 21.A: Income Statement of SOEs/Institutions under MoF Supervision
d. LKPP 2015, Annex 21.B: Balance Sheet of SOEs/Institutions under MoF Supervision
e. LKPP 2015, Annex 22.A: Summary of Income Statement of SOEs with Minority Government Share
f. LKPP 2015, Annex 22.B: Summary of Balance Sheet of SOEs with Minority Government Share
g. LKPP 2015, Annex 36.A: Summary of Public Service Agencies' (BLU) Balance Sheet
h. LKPP 2015, Annex 36.B: Summary of Public Service Agencies' (BLU) Financial Statement (Activity Report)
i. LKPP 2015, Annex 37.B: Summary of Financial Report (Operational Report) of Non-structural Institutions and Foundations
j. LKPP 2015, Annex 37.C: Summary of Balance Sheet of Non-structural Institutions and Foundations
k. Government Regulation 56/2005 on Regional Financial Information System (SIKD)
l. Ministry of Finance Regulation No. 74/PMK.07/2016 on Implementation of Regional Financial Information System
m. Ministry of Finance Regulation 04/PMK.07/2011 on Procedures for Submitting Regional Financial Information System
n. MOF Decree 30/2012 on Procedures for the Management of the Guarantee Reserve Fund in the Context of Government Guarantee Budget Implementation
o. Press Release MOF Secretariat General on Local Government that received sanction of DAU Postponement
p. Summary of APBD 2015 Realization
q. Consolidated Government Budget Realization Report (GFS Format)
r. Government Fiscal Indicators (GFS Format)
s. Budget Financial Note 2015, Chapter 7: Fiscal Risks
t. Law No. 33/2004 on Financial Balance between local and central government

PI-11: Public investment management

a. Law No. 4/2015 on Implementation Procedures For The Cooperation Between The Government And Business Entities In The Provision Of Infrastructure
b. MOF Regulation No. 190/PMK.08/2015 on Cooperation Between Government and Business Entities in the Provision of Infrastructure
c. Law No. 1/2008 on Government Investment
d. Indonesia Infrastructure Guarantee Fund (IIGF) – Draft Book: Manual on Pre-Feasibility Study of PPP-financed Projects
e. No. 82 /M.PPN/HK/ 05 /2015 on Determination Of List Of Infrastructure Project Plan Year 2015
f. Study Materials on Management of Government Investment
g. PPP Book, Public Private Partnerships 2015
h. Law No. 38/2015 on Cooperation Between Government And Business Entities In Infrastructure Provision
i. PD T-01-2005-B, Risk Analysis Guidelines for TOL Road Investment
j. Presidential Regulation No. 75/2014 on the KPPIP
k. Presidential Regulation No. 3/2016 on Acceleration of the Implementation of National Strategic Projects
l. Coordination of Minister for Economic Affairs Regulation No. 12/2015 on the List of Priority Infrastructure Projects 2015-2019
m. MOF Regulation No. 163/2016 on RKAKL
n. MoF Regulation No. 238/PMK.02/2015 on multi years contract

PI-12: Public asset management

a. MOF Regulation No. 50/PMK.06/2014 on implementation procedures for the omission of the state-owned property
b. MOF Regulation No. 1/PMK.06/2013 on depreciation of state-owned property in the forms of fixed assets at the central government entities
c. MOF Regulation No. 78/PMK.06/2014 on implementation procedures for the usage of state property
d. MOF Regulation No. 247/PMK.06/2014 on depreciation of state property in the form of fixed assets in central government

e. Government Regulation No. 27/2014, on management of state property
f. Law No. 41/2009 on Protection on Agricultural Land for Sustainable Food
g. Government Regulation No. 1/2008 on Government Investments

PI-13: Debt Management

a. Indonesia External debt statistics – monthly report
b. Central government debt profile and guarantee – monthly report
c. Indonesia debt and grant management – monthly report
d. Indonesia debt and grant development – quarterly report
e. Public sector debt statistics – quarterly report
f. Directorate general financial management and risks - annual report
g. Law No. 24/2002 on Government Bond
h. Law No. 17/2003 on State Finance
i. Law No. 1/2004 on State Budget, section 4 and 5
j. Law No. 15/2004 on Management assessment and responsibility of State finance
k. Law No. 19/2008 on Government Sharia bond
l. Government regulation No. 23/2003 on Limits of State and Regional budget deficit, and limit amount to borrow of CG and RG
m. Government regulation No. 10/2011 on guidelines of foreign debt and grant
n. Annual debt financing strategy 2015
o. MOF Regulation No. 209/PMK.08/2009 on repurchasing of government bonds
p. Directorate general decree of Financing management and risks No. 44/PR/2016 on the financing strategy through debt 2017

PI-14: Macroeconomic and Fiscal Forecasting

a. Budget Financial Note 2013-2015
b. MOF Regulation No. 447/KMK.06/2005 on Government Debt Strategy

PI-15: Fiscal Strategy

a. Fiscal Policy Strategy Paper 2013-2015
b. Budget Financial Note 2013-2015
c. Budget Financial Note 2013-2015
d. Mid-Year Budget Implementation Report 2013-2015
e. Audited State Financial Statement (LKPP) 2013-2015
f. Law No. 17/2003 on State Finance

PI-16: Medium-term perspective in expenditure budgeting

a. Slide – MOF, The Progress of Implementation of Medium Term Expenditure Framework (MTEF) in Indonesia
b. MOF Regulation No. 163/PMK.02/2016 on instructions for preparation and review of workplan and budget of K/L and ratification of budget implementation list
c. Slide – DG Budget MOF, MTEF Systems, Practices and Challenges in Indonesia
d. Slide – DG Budget MOF, Planning and Budgeting; RKA-KL Drafting
e. Ministry Regulation No. 1/2014/BAPPENAS on guidelines for conducting the National Medium Term Development Plan 2015-2019
f. Ministry Regulation No. 5/2014/BAPPENAS on RENSTRA K/L 2015-2019
g. Slide on "Vision and Mission Jokowi – JK 2014"
h. Government Regulation No. 196/2015 on ministries and other units consolidate their medium-term projections
i. Government Regulation No. 31/2015 on ministries and other units consolidate their medium-term projections
j. Law No. 17/2003 on State Finance
k. Law No. 33/2004 on Financial Balance between local and central government
l. Law No 36/2009 on Health Expenditure Budget
m. Law No. 6/2014 on Village Fund
n. Government Regulation No. 17/2017 on strategic (five-year) plan and medium-term budget

PI-17: Budget preparation process

a. Budget Brief Sept 2012, Budgetary Reform in Indonesia
b. Book – MOF Guidelines, APBN Planning
c. Book – DG Budget MOF, Fundamentals of the State Budget Cycle in Indonesia: Preparing Fiscal Policy and Capacity Concept as a Preliminary Step
d. PEMNA – May 2014, Planning & Budgeting in Indonesia
e. DG Budget – MOF, Budget Application System – ADIK
f. Law No 17/2003 on State Finance
g. Government Regulation No. 80/2010 on budget calendar
h. Government Regulation No. 90/2010 on budget ceilings
i. MOF Regulation No. 163/2016 on RKAKL

PI-18: Legislative scrutiny process

a. AIPA Workshop Sept 2013, The Role of Parliament in Budget Transparency
b. DPR Regulation No. 1 /2014/DPR on Code of Conduct
c. No. 35/PUU-XI/2013, The Supreme Court's Decision on the Role of DPR in the APBN
d. Law No. 17/2003 on State Finance
e. Law No. 18/2016 on ABPN FY
f. MOF Regulation No. 10/2017 on budget virements
g. Law No. 17/2014 on MD3
h. Constitutional Court Decree No. 35/2014 on the role of parliament
i. Law No. 18/2018 on APBN 2017

PI-19: Revenue Administration

a. DG Tax Annual Report 2015
b. DG Custom and Excise Financial Report 2015
c. DG Custom and Excise Financial Report 2016
d. Law No. 19/2000 on Procedures for Collection of Import Duties and/or Excise
e. MOF Regulation No. 111/2013 on Procedures for Collection of Import Duties and/or Excise
f. Law No. 17/2006 on procedures to apply for objection and appeal
g. MOF Regulation No. 217/PMK.04/2010 on objection procedures for customs
h. PER-09/BC/2016 on objection procedures for customs
i. MOF Regulation No. 114/PMK.04/2008 on budget classification
j. PER-01/BC/2011 on objection procedures for excise
k. Law on Minerals and Coal Mining No. 4/2009 - royalties on mines and minerals
l. Law No. 41/1999 on Forestry amended by Law No. 19/2004 - royalties on forestry resources
m. MOF Regulation No. 34/2010 on the appeal and redress mechanism
n. MOF Regulation No. 191/PMK.08/2008 on DG to take responsibility as risk owners
o. MOF Regulation No. 39/PMK.03/2016 on Data Information and Procedures for Tax Purposes
p. Ministerial Decrees No. 885/KMK.03/2016 - reform teams
q. Ministerial Decrees No. 909/KMK.03/2016 - reform teams
r. Law No. 39/2007 - customs and excise procedures
s. MOF Regulation No. 227/PMK.04/2014 - DG customs and excise
t. Law No. 19/2009 on General Provisions and Tax Procedures
u. MOF Regulation No. 234/PMK.01/2015 on Restructuring Revenue Organization
v. Law No. 8/2010 on the Prevention and Combating of Money Laundry, DG Tax and DG Customs and Excise
w. MOF Regulation No. 200/PMK.04/2011 on Audit
x. Tax Law No. 16/2009 on tax collection and tax arrears
y. Tax Law No. 19/2000 on tax collection and tax arrears

PI-20: Accounting for revenue

a. Brochure, Brochure MPN G2
b. DG Treasury – MOF, Manual MPN G2
c. KPPN, Modul MPN G2

d. DG Customs and Excise, Implementation of State Receipt G2 Module at the DG of Customs and Excise
e. MOF Regulation No. 32/PMK.05/2014 on State Revenue Electronic System
f. Letter of DG Treasury S-10167/PB/2016 on Dismissal of State Revenue Deposit Service through MPN G1

PI-21: Predictability of in-year resource allocation

a. DG Treasury – MOF, Management Commitment Module – Future State Vision
b. MOF Regulation No. 15/PMK.02/2016 on procedures for budget revision of FY 2016
c. MOF Regulation No. 277/PMK.O5/2014 on withdrawal plan, funding plan, and cash plan
d. MOF Regulation No. 62 /PMK.02/2016 on procedures for budget revision of FY 2016
e. DG Treasury – MOF, Daily Withdrawal Plan - Unit Level
f. MOF Regulation No. 115/2016 - short-term financing in cash of a cash shortage or surplus
g. Law No. 1/2004 on State Treasury
h. Law No. 17/2003 – State Finance
i. Law No. 18/2016 on the State Budget for FY 2017

PI-22: Expenditure arrears

a. MOF Regulation No. 270/PMK/2014 on Kick Off Accrual Accounting
b. BPK RI, LKPP 2015
c. PER-44/PB/2014 on Guidelines for the implementation of state budget at the end of FY 2016
d. PER-49/PB/2016 on Guidelines for the implementation of state budget at the end of FY 2016
e. Government Regulation No. 45/2013 on billing rights or invoices

PI-23: Payroll Control

a. MOF Regulation No. II/PMK.05/2016 on Distribution of PNS/TNI/POLRI salary through centralized commercial banks
b. BPK RI: LKPP 2015
c. Paper – DG Treasury MOF: Distribution of PNS salary centrally
d. PER- 31 /PB/2016 on procedures of income payment for non-civil government employees imposed in the state budget
e. PER- 41 /PB/2016 on the implementation of the centralization pilot - salary payment for employees in DG Treasury
f. MOF Regulation No. 190/PMK.05/2012 on payment procedures for the implementation of APBN
g. S-6038/PB.3/2016 on Development of Host-to-Host System for Commercial Banks and SPAN in the Framework of PNS/TNI/POLRI centrally
h. Law No. 5/2014 on Civil State Apparatus
i. Mof Regulation No. 133/2008 on accountability
j. Treasury Regulation No. 37/2009 on expenditure administration data

PI-24: Procurement

a. Presidential Regulation No. 54/2010: Procurement for Government Goods and Services
b. Presidential Regulation No. 4/2015: 4th Amendment of Presidential Regulation N0. 54/2010
c. Presidential Decree No. 1/2015: Acceleration of Government Goods and Services Procurement

PI-25: Internal Control on non-salary expenditure

a. Treasury State Budget System Module – 2016
b. MOF Regulation No. 190/PMK.05/2012 on payment procedures in the implementation of APBN
c. Law No. 45/2013 on The State Revenue and Expenditure Budget Implementation Guidelines
d. Law No. 17/2003 on State Finance
e. Law No. 1/2004 on State Treasury
f. Government Regulation No. 27/ 2014 – Management of State and Regional Assets
g. Audit Law No. 15/ 2004 on audit of state financial management and responsibility
h. UU APBN 2015 and 2016
i. Government Regulation PP No. 45/2013 to facilitate impediments to disbursement
j. MOF Regulation No. 277/PMK.05/2014 on withdrawal plan, funding plan, and cash plan
k. Government Regulation No. 90/2010 on preparation of workplan and budget of K/L

l. The Procedure for Budget Revision
m. BPK Audit Report
n. Law No. 15/2914 on BPK Audit

PI-26: Internal audit

a. Law No. 1/2004 on State Treasury
b. PP 60/FY 2008
c. Ministry Regulation No. 13/2016 on organization and management o ESDM
d. KPKNL Serpong, Work Program Audit
e. National Compilation Report of Deconcentrated Field Fund PAUD and DIKMAS 2016
f. Audit Report of Certain Objectives - Social Assistance Facilities of Cultural Arts and Film 2015
g. Audit Report on the Strategic Program through Activities Support Funds of Cultural Sector 2015
h. Audit Report on Social Assistance of Cultural Sector 2015
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l. Operational Audit Report of Technical Services at Language Center in Central Kalimantan FY 2015/2016
m. Audit Result on Financial Realization of the First Semester at the Center of Curriculum and Balitbang 2016
n. Audit Result on Financial Realization of the First Semester of Financial Management for FY 2016 at DG History and DG Culture
o. Review Report on RKAKL of DG Culture 2016
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s. Audit Report on Strategic Program of SMP, SMA and SMK Teacher Certification 2014 in Department of Education in Singkawang City
t. Audit Report on Performance of Health Center Work Unit in Health Laboratory of Palembang FY 2014/2015
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v. Performance Accountability Report of IG MOH 2015
w. Annual Activity Program Monitoring Report of IG MEMR FY 2016
x. Performance Report of IG MEMR 2015
y. Comprehensive Audit Report FY 2015 and FY 2014 IG Ministry of Public Work and Housing in National Road Implementation Work Unit Region 1 in North Sumatera
z. Post-Audit Result FY 2015 and Procurement of Good/Services Audit – contracted to the Work Unit and SDA Maintenance in Sumatera IV
aa. Audit Result FY 2016 in Planning and Monitoring Work Unit of National Road in Central Java DG Bina Marga
bb. Audit Result FY 2015 and Post-Audit Result FY 2014 on Implementation of Pemali Juana Water Resources Network in Central Jawa
cc. Audit Result FY 2016 on Implementation of WS Kaluku – Karama, WS Palu – Lariang Water Resources Network in West Sulawesi Province
dd. Comprehensive Audit Result FY 2015 on Implementation of National Road Wilayah II Work Unit in Bali Province
ee. Audit Result FY 2015 and Procurement Goods/Services Audit FY 2016 – contracted to Planning and Control Work Unit of Infrastructure Program in Bali Province
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gg. Decision of IG MOF No. KEP-216/IJ/2015 on Annual Supervision Work Program IG 2016
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PI-27: Financial data integrity

a. State Treasury System Budget Module – 2016
b. Indonesia Cash Management Reform
c. FMIS Study of selected PEMNA members:
d. Lessons for other countries
e. Management of Government Account
f. MOF Regulation No. 190/2012 on Payment Procedures for Annual Budget (APBN)

PI-28: In-year budget reports

a. Om Span Application – Online Monitoring Span
b. PER-41/PB/2014 on use of online monitoring application treasury system and state budget
c. Central Government Accounting System (SAPP)

PI-29: Annual financial reports

a. Om Span Application – Online Monitoring Span
b. PER-41/PB/2014 on use of online monitoring application treasury system and state budget
c. Central Government Accounting System (SAPP)
d. Handbook of International Public Sector Accounting Pronouncements: 2016 Edition Volume I

PI-30: External Audit

a. Central Government Financial Report (2015)
b. BPK Audit Report on LKPP 2015: Executive Summary
c. Law No. 15/2004 - BPK Audit
d. BPK Regulation No. 2/2017 on the Monitoring of Audit Follow-Up Action
e. Law No. 15/2006 - BPK procedure

PI-31: legislative Scrutiny of Audit Reports

a. Law No.15/2004 on state financial oversight
b. Law No. 17/2014 on MD3
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Annex 4: Data and Calculation for PI-1, PI-2, and PI-3

PI-2.1 Expenditure composition outturn by function

	2014		2015		2016	
	Budget	Outturn	Budget	Outturn	Budget	Outturn
General public services	794.8	797.8	891.8	624.4	316.5	275.1
Defence	86.3	86.1	96.8	105.9	99.6	98.2
Public order and safety	38.0	34.9	46.1	52.9	109.8	113.3
Economic affairs	128.3	97.1	143.5	177.1	360.2	288.3
Environmental protection	12.2	9.3	10.7	9.9	12.1	8.9
Housing and community amenities	31.5	26.2	20.5	17.0	34.7	27.8
Health	13.1	10.9	21.1	23.2	67.2	59.6
Tourism and creative economy	2.1	1.5	1.9	3.2	7.4	4.4
Religion	4.5	4.0	5.3	5.1	9.8	8.5
Education	131.3	122.7	146.4	143.6	150.1	132.0
Social protection	8.1	13.1	8.3	20.9	158.1	137.7
Total	**1,250.2**	**1,203.6**	**1,392.4**	**1,183.2**	**1,325.6**	**1,154.0**
Deviation	**96.3%**		**85.0%**		**87.1%**	
Composition variance	**6.8%**		**22.6%**		**5.5%**	

Calculation Sheet for Expenditure composition outturn by function
Step 1: Enter the three fiscal years used for assessment in table 1.
Step 2: Enter **budget** and **actual** expenditure data for each of the three years in tables 2, 3, and 4 respectively.
Step 3: Read the results for each of the three years for each indicator in table 5.

Table 1 - Fiscal years for assessment

	Year 1 =	2014
	Year 2 =	2015
	Year 3 =	2016

Table 2

Function	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Data for year 2014						
General public services	795	798	765.2	32.6	32.6	4.3%
Defence	86	86	83.1	3.0	3.0	3.6%
Public order and safety	38	35	36.6	-1.7	1.7	4.7%
Economic affairs	128	97	123.5	-26.4	26.4	21.4%
Environmental protection	12	9	11.7	-2.4	2.4	20.6%
Housing and community amenities	32	26	30.3	-4.1	4.1	13.5%
Health	13	11	12.6	-1.7	1.7	13.6%
Tourism and creative economy	2	1	2.0	-0.6	0.6	27.3%
Religion	5	4	4.3	-0.3	0.3	7.6%
Education	131	123	126.4	-3.7	3.7	2.9%
Social protection	8	13	7.8	5.3	5.3	67.6%
Total expenditure	**1,250**	**1,204**	**1,203.6**	**0.0**	**81.8**	
Overall variance						**96.3%**
Composition variance						**6.8%**

Table 3

Function	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Data for year 2015						
General public services	**892**	**624**	**757.8**	**-133.4**	**133.4**	**17.6%**
Defence	97	106	82.3	23.6	23.6	28.7%
Public order and safety	46	53	39.2	13.7	13.7	35.0%
Economic affairs	144	177	122.0	55.1	55.1	45.2%
Environmental protection	11	10	9.1	0.8	0.8	8.8%
Housing and community amenities	20	17	17.4	-0.4	0.4	2.4%
Health	21	23	17.9	5.3	5.3	29.5%
Tourism and creative economy	2	3	1.6	1.5	1.5	93.4%
Religion	5	5	4.5	0.6	0.6	13.4%
Education	146	144	124.4	19.2	19.2	15.5%
Social protection	8	21	7.1	13.8	13.8	195.2%
Total expenditure	**1,392**	**1,183**	**1,183.2**	**0.0**	**267.5**	
Overall variance						**85.0%**
Composition variance						**22.6%**

Table 4

Data for year 2016						
Function	**Budget**	**Actual**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**Percent**
General public services	317	275	275.6	-0.4	0.4	0.2%
Defence	100	98	86.8	11.5	11.5	13.3%
Public order and safety	110	113	95.6	17.8	17.8	18.6%
Economic affairs	360	288	313.6	-25.3	25.3	8.1%
Environmental protection	12	9	10.5	-1.6	1.6	15.0%
Housing and community amenities	35	28	30.2	-2.4	2.4	7.8%
Health	67	60	58.5	1.1	1.1	1.9%
Tourism and creative economy	7	4	6.5	-2.1	2.1	32.3%
Religion	10	8	8.5	-0.1	0.1	0.7%
Education	150	132	130.7	1.3	1.3	1.0%
Social protection	158	138	137.6	0.1	0.1	0.1%
Total expenditure	**1,326**	**1,154**	**1,154.0**	**0.0**	**63.6**	
Overall variance						**87.1%**
Composition variance						**5.5%**

Table 5 - Results Matrix

	Year	Total expenditure deviation	Composition variance
	2014	96.3%	6.8%
	2015	85.0%	22.6%
	2016	87.1%	5.5%

Note: Adjusted budget is based on PEFA formulation and guidance in estimating the composition variances.

PI-2.2: Expenditure composition outturn by economic type

	2014		2015		2016	
	Budget	Outturn	Budget	Outturn	Budget	Outturn
Compensation of employees	263.0	243.7	293.1	281.1	347.5	305.1
Use of goods and services	214.4	176.6	222.5	233.3	325.0	259.6
Consumption of fixed capital	184.2	147.3	174.7	215.4	201.6	169.5
Interest	121.3	133.4	152.0	156.0	184.9	182.8
Subsidies	333.7	392.0	414.7	186.0	182.6	174.2
Grants	3.5	0.9	3.6	4.3	4.0	7.1
Social benefits	91.8	97.9	85.5	97.2	55.3	49.6
Other expenses	38.1	11.7	46.4	10.1	24.7	6.0
Transfers to sub-national governments	592.6	573.7	647.0	623.1	770.2	710.3
Total	**1,842.5**	**1,777.3**	**2,039.5**	**1,806.4**	**2,095.8**	**1,864.3**
Deviation	**96.5%**		**88.6%**		**89.0%**	
Composition variance	**11.0%**		**23.5%**		**6.4%**	

Calculation Sheet for Expenditure composition outturn by economic type
Step 1: Enter the three fiscal years used for assessment in table 1.
Step 2: Enter **budget** and **actual** expenditure data for each of the three years in tables 2, 3, and 4 respectively.
Step 3: Read the results for each of the three years for each indicator in table 5.

Table 1 - Fiscal years for assessment

	Year 1 =	2014
	Year 2 =	2015
	Year 3 =	2016

Table 2

Data for year = 2014						
Economic head	**Budget**	**Actual**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**Percent**
Compensation of employees	262,978	243,720	253,670.2	-9,950.3	9,950.3	3.9%
Use of goods and services	214,371	176,622	206,783.4	-30,161.1	30,161.1	14.6%
Consumption of fixed capital	184,194	147,348	177,674.0	-30,326.1	30,326.1	17.1%
Interest	121,286	133,441	116,992.6	16,448.7	16,448.7	14.1%
Subsidies	333,683	391,963	321,871.9	70,090.6	70,090.6	21.8%
Grants	3,543	908	3,417.3	-2,509.8	2,509.8	73.4%
Social benefits	91,806	97,925	88,556.9	9,367.8	9,367.8	10.6%
Other expenses	38,083	11,651	36,735.0	-25,083.9	25,083.9	68.3%
Transfers to Sub-national governments	592,552	573,703	571,578.9	2,124.1	2,124.1	0.4%
Total expenditure	**1,842,495**	**1,777,280**	**1,777,280.2**	**0.0**	**196,062.4**	
Overall variance						**96.5%**
Composition variance						**11.0%**

Table 3

Data for year = 2015						
Economic head	**Budget**	**Actual**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**Percent**
Compensation of employees	293,129	281,143	259,635.1	21,507.6	21,507.6	8.3%
Use of goods and services	222,468	233,281	197,047.7	36,233.4	36,233.4	18.4%
Consumption of fixed capital	174,704	215,434	154,741.9	60,692.3	60,692.3	39.2%
Interest	151,968	156,010	134,603.7	21,405.9	21,405.9	15.9%
Subsidies	414,681	185,971	367,297.3	-181,326.2	181,326.2	49.4%
Grants	3,565	4,262	3,157.7	1,103.9	1,103.9	35.0%
Social benefits	85,502	97,151	75,732.1	21,419.1	21,419.1	28.3%
Other expenses	46,425	10,052	41,120.1	-31,068.2	31,068.2	75.6%
Transfers to sub-national governments	647,041	623,140	573,107.5	50,032.2	50,032.2	8.7%
Total expenditure	**2,039,484**	**1,806,443**	**1,806,443.1**	**0.0**	**424,788.8**	
Overall variance						**88.6%**
Composition variance						**23.5%**

Table 4

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Data for year = 2016						
Compensation of employees	347,508	305,142	309,122.5	-3,981.0	3,981.0	1.3%
Use of goods and services	325,027	259,647	289,124.4	-29,477.6	29,477.6	10.2%
Consumption of fixed capital	201,584	169,474	179,317.0	-9,842.8	9,842.8	5.5%
Interest	184,900	182,761	164,475.9	18,285.3	18,285.3	11.1%
Subsidies	182,600	174,227	162,430.0	11,796.9	11,796.9	7.3%
Grants	4,000	7,130	3,558.2	3,571.8	3,571.8	100.4%
Social benefits	55,264	49,614	49,159.2	454.3	454.3	0.9%
Other expenses	24,692	6,024	21,964.1	-15,940.1	15,940.1	72.6%
Transfers to sub-national governments	770,200	710,257	685,123.7	25,133.2	25,133.2	3.7%
Total expenditure	**2,095,774**	**1,864,275**	**1,864,275.1**	**0.0**	**118,483.0**	
Overall variance						**89.0%**
Composition variance						**6.4%**

Table 5 - Results Matrix

	Year	Total expenditure deviation	Composition variance
	2014	96.5%	11.0%
	2015	88.6%	23.5%
	2016	89.0%	6.4%

Note: Adjusted budget is based on PEFA formulation and guidance in estimating the composition variances.

PI-2.3: Expenditure from contingency reserves

	IDR trillion)		
	Total Budget Appropriation	Total Contingency Obligations Incurred	Contingency Share (%)
2014	1,842.5	1.4	0.1%
2015	2,039.5	2.3	0.1%
2016 (audited)	2,095.8	1.9	0.1%
Average Contingency Share	1,992.6	1.8	0.1%

Data for year =	**2014**	**(in IDR trillion)**
Expenditure from contingency reserves	**Budget**	**Actual**
Contingency expenditure for natural disaster	3.0	1.4
Contingency expenditure for fiscal risk	5.0	
Contingency expenditure for immediate needs	3.8	

Data for year =	**2015**	**(in IDR trillion)**
Expenditure from contingency reserves	**Budget**	**Actual**
Contingency expenditure for natural disaster	4.0	2.3
Contingency expenditure for fiscal risk	5.4	
Contingency expenditure for immediate needs	4.1	

Data for year =	**2016**	**(in IDR trillion)**
Expenditure from contingency reserves	**Budget**	**Actual (unaudited)**
Contingency expenditure for natural disaster	4.5	1.9
Contingency expenditure for fiscal risk	3.0	
Contingency expenditure for immediate needs	4.0	

PI-3.2: Revenue composition outturn

	2014					
	Budget	Actual Audited	Adjusted Budget	Deviation	Absolute Deviation	Percent
Income tax	586,306	546,181	545,283	898	898	0.2%
Sales tax (VAT)	492,951	409,182	458,459	-49,277	49,277	10.7%
Property taxes	25,442	23,476	23,662	-185	185	0.8%
Excises	116,284	118,086	108,148	9,938	9,938	9.2%
Other taxes	5,491	6,293	5,107	1,187	1,187	23.2%
International trade taxes	53,915	43,648	50,142	-6,494	6,494	13.0%
Natural resources revenues	225,955	240,848	210,145	30,704	30,704	14.6%
Profits from state owned enterprises (SOEs/ BUMN)	40,000	40,314	37,201	3,113	3,113	8.4%
Other non-tax revenues (PNBP)	94,088	87,747	87,504	242	242	0.3%
Revenue from public service centers (BLU	25,349	29,681	23,576	6,105	6,105	25.9%
Grants	1,360	5,035	1,265	3,770	3,770	298.0%
Total Revenue	**1,667,141**	**1,550,491**	**1,550,491**	**0.0**	**111,914**	
Overall Variance						**93.0%**
Composition Variance						**7.2%**

	2015					
	Budget	Actual Audited	Adjusted Budget	Deviation	Absolute Deviation	Percent
Income tax	644,396	602,308	541,797.65	60,510	60,510	11.2%
Sales tax (VAT)	524,972	423,711	441,388.00	-17,677	17,677	4.0%
Property taxes	26,684	29,250	22,435.55	6,814	6,814	30.4%
Excises	126,746	144,641	106,566.21	38,075	38,075	35.7%
Other taxes	5,689	5,568	4,783.30	785	785	16.4%
International trade taxes	51,504	34,940	43,303.55	-8,364	8,364	19.3%
Natural resources revenues	254,271	100,972	213,786.46	-112,815	112,815	52.8%
Profits from state owned enterprises (SOEs/ BUMN)	44,000	37,644	36,994.48	649	649	1.8%
Other non-tax revenues (PNBP)	89,824	81,697	75,522.29	6,175	6,175	8.2%
Revenue from public service centers (BLU)	22,247	35,315	18,704.74	16,611	16,611	88.8%
Grants	3,256	11,973	2,737.84	9,235	9,235	337.3%
Total Revenue	**1,793,589**	**1,508,020**	**1,508,020**	**0**	**277,711**	
Overall Variance						**84.1%**
Composition Variance						**18.4%**

	2016					
	Budget	Actual Audited	Adjusted Budget	Deviation	Absolute Deviation	Percent
Income tax	757,200	666,212	646,484.29	19,728	19,728	3.1%
Sales tax (VAT)	571,700	412,213	488,107.59	-75,894	75,894	15.5%
Property taxes	19,400	19,443	16,563.39	2,880	2,880	17.4%
Excises	146,400	143,525	124,993.79	18,531	18,531	14.8%
Other taxes	11,800	8,105	10,074.64	-1,970	1,970	19.6%
International trade taxes	40,100	35,471	34,236.69	1,234	1,234	3.6%
Natural resources revenues	124,800	64,902	106,552.09	-41,650	41,650	39.1%
Profits from state owned enterprises (SOEs/ BUMN)	34,200	37,133	29,199.37	7,934	7,934	27.2%
Other non-tax revenues (PNBP)	79,400	117,995	67,790.35	50,205	50,205	74.1%
Revenue from public service centers (BLU)	35,400	41,946	30,223.91	11,722	11,722	38.8%
Grants	2,000	8,988	1,707.57	7,280	7,280	426.3%
Total Revenue	**1,822,400**	**1,555,934**	**1,555,934**	**(0)**	**239,028**	
Overall Variance						**85.4%**
Composition Variance						**15.4%**

Total Revenue Deviation	Composition Variance
93.0%	7.2%
84.1%	18.4%
85.4%	15.4%
Indonesia 2014-2016 PEFA P1-3 Score (M2 AV method): D	

Note: Adjusted budget is based on PEFA formulation and guidance in estimating the composition variances.

Annex 5: Summary comparison of Indonesia PEFA 2017 and 2011 Assessment Results

No.	Performance Indicator	2017 Assessment Result (Using 2016 Framework)		2011 Assessment Result (Using 2005 Framework)		Conversion of 2017 result (using 2005 framework)	Change in score	Comparability of scores and explanation of change since previous assessment
		Indicator/ Dimension	Score	Indicator/ Dimension	Score	Estimated Score		
Pillar 1	**Budget Reliability**							
PI-1	**Aggregate expenditure outturn**	**PI-1.1**	**C**	**PI-1 (i)**	**C**	**C**	**No change**	**The scores are not entirely comparable as the basis for determining aggregate expenditure used in the PEFA 2011 report excluded externally financed projects. Still, if the same basis was used in 2017, the score for this indicator would still be a C.**
PI-2	**Expenditure composition outturn**		**C+**		**D**	**C**	**Improved**	**The scores are not entirely comparable as the 2011 report excluded externally financed projects and did not cover the composition outturn by economic type. Still, the variance in primary expenditures composition is less in 2017 than in 2011.**
	Expenditure composition outturn by function	PI-2.1	**B**	PI-2 (i)	**D**		Improved	Indirectly comparable
	Expenditure composition outturn by economic type	PI-2.2	**C**					New and therefore not comparable.
	Expenditure from contingency reserve	PI-2.3	**A**	PI-2 (iii)	**D**			No comparison possible. This indicator dimension did not exist in 2011.

No.	Performance Indicator	2017 Assessment Result (Using 2016 Framework)		2011 Assessment Result (Using 2005 Framework)		Conversion of 2017 result (using 2005 framework)	Change in score	Comparability of scores and explanation of change since previous assessment
		Indicator/ Dimension	Score	Indicator/ Dimension	Score	Estimated Score		
PI-3	**Revenue Outturn**		**D**		**A**	**D**	**Deteriorated**	**Indirectly comparable as the scope includes revenue from external sources and a dimension for revenue composition. Under the previous methodology (used in 2011) revenue outturns in 2007, 2008 and 2009 were 98%, 126% and 86% of budget respectively and criterion for an A was met. Still, if the same basis was used in 2017, the score for this indicator would still be a D.**
		PI-3.1	**D**	PI-3 (i)	**A**		Deteriorated	Indirectly comparable as includes revenues for external sources.
		PI-3.2	**D**					New and therefore not comparable.
PI-4	**Budget Classification**	**PI-4.1**	**A**	**PI-5 (i)**	**A**		**No change**	**Directly comparable (but the GFS level to be checked and included). Still, if the same basis was used in 2017, the score for this indicator would still be an A.**
PI-5	**Budget Documentation**	**PI-5.1**	**B**	**PI-6 (i)**	**A**		**Deteriorated**	**Not comparable as new elements have been introduced. Still, if the same basis was used in 2017, the score for this indicator would still be a B (element 10 in 2017 or 9 in 2011 on explanation of budget implications of new policies is still not fulfilled).**

No.	Performance Indicator	2017 Assessment Result (Using 2016 Framework)		2011 Assessment Result (Using 2005 Framework)		Conversion of 2017 result (using 2005 framework)	Change in score	Comparability of scores and explanation of change since previous assessment
		Indicator/ Dimension	Score	Indicator/ Dimension	Score	Estimated Score		
PI-6	**Central Government operations outside financial reports**		**A**		**C+**		**Improved**	**Not comparable as new dimensions have been introduced and calibration changed. Still, if the same basis was used in 2017, the score for this indicator would still be an A.**
	Expenditure outside financial reports	PI-6.1	**A**	PI-7 (i)	**C**			Not directly comparable as donor-funded projects included in 2017 and calibration changed.
				PI-7 (ii)	**B**			Discontinued. Not comparable
	Revenue outside financial reports	PI-6.2	**A**					New and therefore not comparable.
	Financial reports of extrabudgetary units	PI-6.3	**A**					New and therefore not comparable.
PI-7	**Transfer to subnational governments**		**B**		**B**	**B**	**No change**	**Not comparable as one dimension has been discontinued and calibration changed. Still, if the same basis was used in 2017, the score for this indicator would be a B.**
	System for allocating transfers	PI-7.1	**C**	PI-8 (i)	**A**	C	Deteriorated	Indirectly comparable with minor amendment in calibration. Still, if the same basis was used in 2017, the score would still be a C**.**
	Timeliness of information on transfers	PI-7.2	**A**	PI-8 (ii)	**B**	A	No change	Indirectly comparable but requirement reformulated. Still, if the same basis was used in 2017, the score would still be an A
				PI-8 (iii)	**C**		N/A	Not comparable, discontinued.

No.	Performance Indicator	2017 Assessment Result (Using 2016 Framework)		2011 Assessment Result (Using 2005 Framework)		Conversion of 2017 result (using 2005 framework)	Change in score	Comparability of scores and explanation of change since previous assessment
		Indicator/ Dimension	Score	Indicator/ Dimension	Score	Estimated Score		
PI-8	**Performance information for service delivery**		**C+**		**D**	**D**	**No change**	**Overall not comparable new dimensions have been introduced and requirements changed. Still, if the same basis was used in 2017, the score for this indicator would be a D as information on resources received at service delivery level (Health and Education) is still not available.**
	Performance plans for service delivery	PI-8.1	**B**					New and therefore not comparable.
	Performance achieved for service delivery	PI-8.2	**B**					New and therefore not comparable.
	Resources received by service delivery units	PI-8.3	**C**	PI-23 (i)	**D**		No change	Not comparable (subject only) as score reformulated. Still, if the same basis was used in 2017, the score would still be a C.
	Performance evaluation for service delivery	PI-8.4	**C**					New and therefore not comparable.
PI-9	**Public access for fiscal information**	**PI-9.1**	**A**	**PI-10 (i)**	**A**	**A**	**No change**	**Not comparable (subject only) as substantial changes made to requirements. However, if the same basis was used in 2017, the score for this indicator would still be an A.**

No.	Performance Indicator	2017 Assessment Result (Using 2016 Framework)		2011 Assessment Result (Using 2005 Framework)		Conversion of 2017 result (using 2005 framework)	Change in score	Comparability of scores and explanation of change since previous assessment
		Indicator/ Dimension	Score	Indicator/ Dimension	Score	Estimated Score		
PI-10	**Fiscal risk reporting**		**C**		**C+**	**C**	**Deteriorated**	**Not comparable (subject only) as substantial changes made to requirements and a new dimension added on contingent liabilities. However, if the same basis was used in 2017, the score for this indicator would be a C.**
	Monitoring of public corporations	PI-10.1	**B**	PI-9 (i)	**B**		No change	Not comparable (subject only) as requirements changed. However, if the same basis was used in 2017, the score would still be a B based on existing public corporations' reporting.
	Monitoring of subnational governments	PI-10.2	**D**	PI-9 (ii)	**C**		No change	Not directly comparable (subject only) as requirements changed. However, if the same basis was used in 2017, the score would still be a C as fiscal and financial reporting of SNGs still delayed.
	Contingent liabilities and other fiscal risks	PI-10.3	**C**					New and therefore not comparable.
PI-11	**Public investment management**		**D+**				**N/A**	**New indicator**
	Economic analysis of investment proposals	PI-11.1	**C**					New and therefore not comparable.
	Investment project selection	PI-11.2	**C**					New and therefore not comparable.
	Investment project costing	PI-11.3	**D**					New and therefore not comparable.
	Investment project monitoring	PI-11.4	**D**					New and therefore not comparable.
PI-12	**Public asset management**		**B**				**N/A**	**New indicator**
	Financial asset monitoring	PI-12.1	**A**					New and therefore not comparable.
	Nonfinancial asset monitoring	PI-12.2	**C**					New and therefore not comparable.
	Transparency of asset disposal	PI-12.3	**C**					New and therefore not comparable.

No.	Performance Indicator	2017 Assessment Result (Using 2016 Framework)		2011 Assessment Result (Using 2005 Framework)		Conversion of 2017 result (using 2005 framework)	Change in score	Comparability of scores and explanation of change since previous assessment
		Indicator/ Dimension	Score	Indicator/ Dimension	Score	Estimated Score		
PI-13	**Debt management**		**B+**		**B+**	**A**	**Improved**	Not directly comparable (subject only) as requirements changed and a new dimension added. However, if the same basis was used in 2017, the score for this indicator would be an A.
	Recording and reporting of debt and guarantees	PI-13.1	**A**	PI-17(i)	**B**		Improved	Directly comparable.
	Approval of debt and guarantees	PI-13.2	**A**	PI-17 (iii)	**A**		No change	Not comparable (subject only) as requirements changed. However, if the same basis was used in 2017, the score would still be an A.
	Debt management strategy	PI-13.3	**C**					New and therefore not comparable.
PI-14	**Macroeconomic and fiscal forecasting**		**B+**				**N/A**	**New indicator with elements from PI-12 of PEFA 2011 but not comparable.**
	Macroeconomic forecasts	PI-14.1	**A**					New and therefore not comparable.
	Fiscal forecasts	PI-14.2	**B**					New and therefore not comparable.
	Macrofiscal sensitivity analysis	PI-14.3	**B**					New and therefore not comparable.
PI-15	**Fiscal Strategy**		**B+**				**N/A**	**New indicator**
	Fiscal impact of policy proposals	PI-15.1	**C**					New and therefore not comparable.
	Fiscal strategy adoption	PI-15.2	**A**					New and therefore not comparable.
	Reporting on fiscal outcomes	PI-15.3	**A**					New and therefore not comparable.

No.	Performance Indicator	2017 Assessment Result (Using 2016 Framework)		2011 Assessment Result (Using 2005 Framework)		Conversion of 2017 result (using 2005 framework)	Change in score	Comparability of scores and explanation of change since previous assessment
		Indicator/ Dimension	Score	Indicator/ Dimension	Score	Estimated Score		
PI-16	**Medium-term perspective in expenditure budgeting**		**C+**				**N/A**	New and therefore not comparable.
	Medium-term expenditure estimates	PI-16.1	**C**	PI-12 (i)	**C**			Not comparable (subject only) as requirements and scope changed.
	Medium-term expenditure ceilings	PI-16.2	**A**					New and therefore not comparable.
	Alignment of strategic plans and medium-term budgets	PI-16.3	**C**	PI-12 (iii)	**B**	**C**	**No change**	Not comparable (subject only). However, if the same basis was used in 2017, the score would still be a C. The scoring in 2011 should probably have been a C as plans and budgets followed the same format then.
				PI-12 (iv)	**C**			Discontinued
	Consistency of budget with previous year's estimates	PI-16.4	**C**					New and therefore not comparable.
PI-17	**Budget preparation process**		**A**		**A**	**A**	**No change**	Not directly comparable. However, if the same basis was used in 2017, the score would still be an A.
	Budget calendar	PI-17.1	**A**	PI-11 (i)	**A**		No change	Directly comparable
	Guidance on budget preparation	PI-17.2	**A**	PI-11 (ii)	**A**		No change	Directly comparable
	Budget submission to the legislature	PI-17.3	**A**	PI-27 (iii)	**A**		No change	Not comparable (subject only) as scope covers three years.

No.	Performance Indicator	2017 Assessment Result (Using 2016 Framework)		2011 Assessment Result (Using 2005 Framework)		Conversion of 2017 result (using 2005 framework)	Change in score	Comparability of scores and explanation of change since previous assessment
		Indicator/ Dimension	Score	Indicator/ Dimension	Score	Estimated Score		
PI-18	**Parliamentary scrutiny of budgets**		**A**		**B+**	**A**	**Improved**	**Not directly comparable. However, if the same basis was used in 2017, the score would still be an A**
	Scope of budget scrutiny	PI-18.1	**A**	PI-27 (i)	**B**		Improved	Directly comparable
	Legislative procedures for budget scrutiny	PI-18.2	**A**	PI-27 (ii)	**B**		Improved	Not comparable (subject only) as calibration adjusted. Still, if the same basis was used in 2017, the score would still be an A.
	Timing of budget approval	PI-18.3	**A**	PI-11 (iii)	**A**		No change	Indirectly comparable as requirement adjusted.
	Rules for budget adjustments by the executive	PI-18.4	**A**	PI-27 (iv)	**A**		No change	Directly comparable
PI-19	**Revenue administration**		**C+**		**C+**	**C+**	**No change**	**Not comparable as change in scope, requirements and calibration and new dimension. However, if the same basis was used in 2017, the score would still be a C+.**
	Rights and obligations for revenue measures	PI-19.1	**B**	PI-13 (ii)	**B**			Not comparable (subject only)
				PI-13 (iii)	**C**			Not comparable (subject only)
	Revenue risk management	PI-19.2	**C**					New and therefore not comparable.
	Revenue audit and investigation	PI-19.3	**B**	PI-14 (i)	**C**			Not directly comparable as combines content of several dimensions and covering nontax revenue.
				PI-14 (ii)	**B**		No change	
				PI-14 (iii)	**C**			
	Revenue arrears monitoring	PI-19.4	**C**	PI-15 (i)	**C**		No change	Not directly comparable as only covering one year and includes nontax revenue.

No.	Performance Indicator	2017 Assessment Result (Using 2016 Framework)		2011 Assessment Result (Using 2005 Framework)		Conversion of 2017 result (using 2005 framework)	Change in score	Comparability of scores and explanation of change since previous assessment
		Indicator/ Dimension	Score	Indicator/ Dimension	Score	Estimated Score		
PI-20	**Accounting for revenue**		**A**		**C+**	**A**	**Improved**	**Not directly comparable as includes non tax revenues and a new dimension has been added.** Still, if the same basis was used in 2017, the score would still be an A.
	Information on revenue collections	PI-20.1	**A**					New and therefore not comparable.
	Transfer of revenue collections	PI-20.2	**A**	PI-15 (ii)	**A**		No change	Not comparable (subject only)
	Revenue accounts reconciliation	PI-20.3	**A**	PI-15 (iii)	**C**		Improved	Not comparable (subject only)
PI-21	**Predictability of in-year resource allocation**		**B+**		**B+**		**Improved**	**Directly comparable and improved.**
	Consolidation of cash balances	PI-21.1	**A**	PI-17 (ii)	**B**		Improved	Directly comparable
	Cash forecasting and monitoring	PI-21.2	**A**	PI-16 (i)	**C**		Improved	Directly comparable
	Information on commitment ceilings	PI-21.3	**A**	PI-16 (ii)	**A**		No change	Directly comparable
	Significance of in-year budget adjustments	PI-21.4	**B**	PI-16 (iii)	**A**		Deteriorated	Directly comparable.
PI-22	**Expenditure Arrears**		**B+**		**B+**		**No change**	**Indirectly comparable.**
	Stock of expenditure arrears	PI-22.1	**B**	PI-4 (i)	**A**		No change	Indirectly comparable
	Expenditure arrears monitoring	PI-22.2	**A**	PI-4 (ii)	**B**		No change	Indirectly comparable
PI-23	**Payroll**		**C+**		**C+**	**B**	**Improved**	**Indirectly comparable. Still, if the same basis was used in 2017, the score would still be a B.**
	Integration of payroll and personnel records	PI-23.1	**B**	PI-18 (i)	**C**		Improved	Indirectly comparable but budget controls added to the requirements.
	Management of payroll changes	PI-23.2	**B**	PI-18 (ii)	**B**		Deteriorated	Indirectly comparable
	Internal control of payroll	PI-23.3	**A**	PI-18 (iii)	**A**		No change	Directly comparable
	Payroll audit	PI-23.4	**C**	PI-18 (iv)	**C**		No change	Directly comparable

No.	Performance Indicator	2017 Assessment Result (Using 2016 Framework)		2011 Assessment Result (Using 2005 Framework)		Conversion of 2017 result (using 2005 framework)	Change in score	Comparability of scores and explanation of change since previous assessment
		Indicator/ Dimension	Score	Indicator/ Dimension	Score	Estimated Score		
PI-24	**Procurement management**		**C**		**C**	**C**	**No change**	Not comparable as focus changed and new dimension introduced. **Still, if the same basis was used in 2017, the score would still be a C.**
	Procurement monitoring	PI-24.1	**C**					New and therefore not comparable.
	Procurement methods	PI-24.2	**B**	PI-19 (i)	**B**		No change	Indirectly comparable as covers the competitive methods except smaller value contracts.
				PI-19 (ii)	**D**			Not comparable (subject only) as focus changed on use of competitive methods and not justification.
	Public access to procurement information	PI-24.3	**C**	PI-19 (iii)	**C**		No change	Indirectly comparable
	Procurement complaints management	PI-24.4	**D**	PI-19 (iv)	**D**		No change	Indirectly comparable
PI-25	**Internal controls on non-salary expenditure**		**A**		**C+**	**A**	**Improved**	**Not directly comparable. Still, if the same basis was used in 2017, the score would still be an A.**
	Segregation of duties	PI-25.1	**A**					New and therefore not comparable but using data from 2011 PI-20.3.
	Effectiveness of expenditures commitment controls	PI-25.2	**A**	PI-20 (i)	**B**		Improved	Directly comparable
			A	PI-20 (ii)	**B**			Not comparable as now covered by new PI-25.1 and PI-25.3
	Compliance with payment rules and procedures	PI-25.3	**A**	PI-20 (iii)	**C**			Not directly comparable as focus narrowed on payments only.

No.	Performance Indicator	2017 Assessment Result (Using 2016 Framework)		2011 Assessment Result (Using 2005 Framework)		Conversion of 2017 result (using 2005 framework)	Change in score	Comparability of scores and explanation of change since previous assessment
		Indicator/ Dimension	Score	Indicator/ Dimension	Score	Estimated Score		
PI-26	**Internal audit**		**C+**		**D+**	**C+**	**Improved**	**Not directly comparable as requirements adjusted. Still, if the same basis was used in 2017, the score would still be a C+.**
	Coverage of internal audit	PI-26.1	**A**	PI-21 (i)	**D**		Improved	Indirectly comparable
	Nature of audits and standards applied	PI-26.2	**C**					New and therefore not comparable.
	Implementation of internal audits and reporting	PI-26.3	**A**	PI-21 (ii)	**C**		Improved	Not directly comparable as requirements adjusted.
	Response to internal audits	PI-26.4	**C**	PI-21 (iii)	**C**		No change	Not directly comparable as requirements adjusted.
PI-27	**Financial data integrity**		**A**		**B**	**A**	**Improved**	**Not directly comparable as requirements adjusted and new dimension. Still, if the same basis was used in 2017, the score would still be an A.**
	Bank account reconciliation	PI-27.1	**A**	PI-22 (i)	**B**		Better	Indirectly comparable
	Suspense accounts	PI-27.2	**A**	PI-22 (ii)	**B**		Better	Indirectly comparable
	Advance accounts	PI-7.3	**A**	PI-22 (ii)	**B**		Better	Indirectly comparable
	Financial data integrity processes	PI-27.4	**A**					New and therefore not comparable.
PI-28	**In-year budget reports**		**B+**		**C+**	**A**	**Improved**	**Not directly comparable as requirements adjusted and new dimension. Still, if the same basis was used in 2017, the score would still be an A.**
	Coverage and comparability of reports	PI-28.1	**A**	PI-24 (i)	**C**		Improved	Indirectly comparable
	Timing of in-year budget reports	PI-28.2	**B**	PI-24 (ii)	**B**		Improved	Indirectly comparable
	Accuracy of in-year budget reports	PI-28.3	**A**	PI-24 (iii)	**B**		Improved	Not comparable (subject only)

No.	Performance Indicator	2017 Assessment Result (Using 2016 Framework)		2011 Assessment Result (Using 2005 Framework)		Conversion of 2017 result (using 2005 framework)	Change in score	Comparability of scores and explanation of change since previous assessment
		Indicator/ Dimension	Score	Indicator/ Dimension	Score	Estimated Score		
PI-29	**Annual financial reports**		**C+**		**B+**	**C+**	**Deteriorated**	**Not directly comparable as requirements adjusted and new dimension. Still, if the same basis was used in 2017, the score would still be a C+.**
	Completeness of annual financial reports	PI.29.1	**A**	PI-25 (i)	**B**		Improved	Indirectly comparable
	Submission of reports for external audit	PI-29.2	**A**	PI-25 (ii)	**A**		No change	Indirectly comparable
	Accounting standards	PI-29.3	**C**	PI-25 (iii)	**B**		Deteriorated	Indirectly comparable but with different reference alignment to the new IPSAS (accrual)
PI-30	**External audit**		**C+**		**B+**	**C+**	**Deteriorated**	**Not directly comparable as requirements adjusted and new dimension. Still, if the same basis was used in 2017, the score would still be a C+.**
	Audit coverage and standards	PI-30.1	**A**	PI-26 (i)	**A**		No change	Not comparable (subject only)
	Submission of audit reports to the legislature	PI-30.2	**A**	PI-26 (ii)	**A**		No change	Not comparable (subject only)
	External audit follow-up	PI-30.3	**C**	PI-26 (iii)	**B**		Deteriorated	Not comparable (subject only)
	Supreme Audit Institution independence	PI-30.4	**B**					New and therefore not comparable.

No.	Performance Indicator	2017 Assessment Result (Using 2016 Framework)		2011 Assessment Result (Using 2005 Framework)		Conversion of 2017 result (using 2005 framework)	Change in score	Comparability of scores and explanation of change since previous assessment
		Indicator/ Dimension	Score	Indicator/ Dimension	Score	Estimated Score		
PI-31	**Parliamentary scrutiny of audit report**		**D+**		**C+**	**D+**	**Deteriorated**	**Not directly comparable as requirements adjusted and new dimension. Still, if the same basis was used in 2017, the score would still be a D+.**
	Timing of audit report scrutiny	PI-31.1	**C**	PI-28 (i)	**C**		No change	Indirectly comparable
	Hearings on audit findings	PI-31.2	**D**	PI-28 (ii)	**B**		Deteriorated	Indirectly comparable
	Recommendations on audit by the legislature	PI-31.3	**C**	PI-28 (iii)	**B**			Not comparable (subject only) as focus changed to follow up by parliament on recommendations.
	Transparency of audit scrutiny of audit legislature	PI-31.4	**C**					New and therefore not comparable.