

United Nations Development Group

**MACRO ASSESSMENT OF THE PUBLIC FINANCIAL MANAGEMENT
SYSTEM (PFM) IN INDONESIA**

A COMPILATION OF EXISTING MULTI-LATERAL ASSESSMENTS PERFORMED IN INDONESIA

26 MARCH 2008

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In accordance with Terms of Reference (the “ToR”) issued by the United Nations Children’s Fund (“UNICEF”) on behalf of the United Nation Development Group Executive Committee Agencies on 9 February 2006 and the Assessment Contract dated 20 November 2007, PT PricewaterhouseCoopers FAS (“PwC” or “we”) have completed our assessment of the Public Financial Management System (PFM) in Indonesia based on a compilation of existing reviews performed by multi-lateral partners of the UN.

Please refer to Appendix B for details of the existing assessments that formed the basis of the review.

In addition please refer to Section 4 of this report for specific limitations regarding this report. It is noted that this report is solely based on available assessments by organisations such as the World Bank, International Monetary Fund (IMF) and Asian Development Bank (ADB) and that PwC did not perform any primary research into nor provide any opinion on the PFM in Indonesia.

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Yours sincerely,

Rizal Satar

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TABLE OF CONTENTS

1.	Abbreviations	1
2	Executive Summary	2
3.	Public Financial Management System (PFM) Assessment Findings	3
	3.1. Introduction	3
	3.2. National Budget Development and Execution	4
	3.3. Compliance with Public Sector Accounting Standards and Internal Control Mechanisms	6
	3.4. Control over Cash and Assets	8
	3.5. Audit and Oversight	9
	3.6 Systems and Staff	11
4.	Methodology and Limitations	12
	4.1. Methodology of our review	12
	4.2. Limitations	12

Appendices

- Appendix A – Bibliography
- Appendix B – Key facts on Public Finance in Indonesia
- Appendix C – Responsibilities in Public Expenditure Management
- Appendix D – The Audit Landscape
- Appendix E – Local Government Structure
- Appendix F – Results from the PFM Performance Measurement Framework
- Appendix G – Risk Matrix for Discussion Purposes
- Appendix H – Recommendations for Future Capacity Development

1. Abbreviations

ACC – Anti Corruption Commission
AGO – Attorney General’s Office
ADB – Asian Development Bank
APBD – Regional Government Budget
APBN – National Budget

Bappedda – Development Planning Agency at Sub-National level
Bappenas – National Development Planning Agency
Bawasda – Provincial Internal Audit Authority
BI – Bank Indonesia
BPK – Supreme Audit Institution
BPKP – Financial and Development Supervisory Agency
BPS – National Statistics Office

CAPE – Country Assistance Program Evaluation
CAS – Country Assistance Strategy
CAAA – Country Financial Accountability Assessment
CG – Central Government
CSP – Country Strategy and Program

DAK – Special Allocation Fund
DAU – General Allocation Fund
DG – Directorate General
DIPA – Budget Implementation Documents
DPR – House of Representatives (Parliament)
DPRD – Provincial House of Representatives

FY – Fiscal Year

GAFS – Government Annual Financial Statements
GDP –Gross Domestic Product
GOI – Government of Indonesia

IA – Internal Audit
IFRS – International Financial Reporting Standards
IG – Inspectorate General
IMF – International Monetary Fund
Inpress – Presidential Instruction

Kepman – Ministerial Decree
Keppres – Presidential Decree
KKN – Corruption, Collusion, Nepotism
KPK – Anticorruption Commission
KPPN – State or Regional Treasury Office
KPPU – Business Competition Supervisory Commission

LG – Local Government

MDG – Millennium Development Goals
MOF – Ministry of Finance
MOEMR - Ministry of Energy and Mineral Resources
MOHA – Ministry of Home Affairs
MPR – Peoples Consultative Assembly
MSS – Minimum Service Standards
MTR – Midterm Review
MTEF – Medium Term Expenditure Framework

PBB - Performance Based Budgeting
PETS - Public expenditure tracking surveys
PFM – Public Financial Management
PG – Provincial Government
PSAB – Public Sector Accounting Board
PSAK – Indonesian Financial Accounting Standards

RAN-PK - National Action Plan on the Eradication of Corruption
Renstra – Strategic Plan
ROSC – Report on Observance of Standards and Codes

SOE – State Owned Enterprise

TNI – Indonesian Armed Forces
TSA – Treasury Single Account

UN – United Nations
UNDG – United Nations Development Group
UNDP – United Nations Development Program
UNFPA – United Nations Population Fund
UNICEF – United Nations Children’s Fund

WBI – World Bank Institute
WHO –World Health Organisation

2 Executive Summary

PwC compiled a report on the Public Financial Management System (PFM) in Indonesia based on a review of existing assessments carried out by multilateral development partners of the UN. This macro assessment is one of the key elements of the new Harmonised Approach to Cash Transfers to Implementing Partners that is being carried out by the UNDG Executive Committee, or ExCom, agencies. The purposes of the assessment are:

- *Capacity development objective:* The review supports the Agencies and the Government of Indonesia to identify strengths and weaknesses in the country's Public Financial Management (PFM) and areas for capacity development by the Government of Indonesia and others.
- *Financial management objective:* The review (in combination with the assessment of government Implementing Partners) assists in the establishment of appropriate cash transfer modalities, procedures, and assurance activities to be applied by the Agencies. The review also establishes the capacity of the Supreme Audit Institution (SAI) to undertake audits of cash transfers provided to "low risk" Implementing Partners.

3. Public Financial Management (PFM) Assessment Findings

Introduction

Indonesia's post-crisis period is over¹. Since 2000 the Government of Indonesia (GOI) has taken steps to address the weaknesses that contributed to the economic crisis of 1997. The corporate governance framework has been strengthened² and progress has been made in reforming public finance and increasing transparency, however the reform agenda remains large. The enactment of the State Finance Law, the Treasury Law, the State Audit Law and the National Development Planning Law has been significant in bringing Indonesia in line with international practices. The Ministry of Finance (MOF) has undergone a major reorganisation. In terms of budget formulation, budget execution, procurement and audit there is an existing sound legal framework in place, however weaknesses in the PFM framework still exist with regard to planning and budgeting, budget execution, accounting and reporting and external accountability. Remaining challenges include the appropriate implementation of laws and regulations for areas such as performance based budgeting, establishment of a Medium Term Expenditure Framework (MTEF), initiating electronic procurement processes and strengthening the external audit body³.

Indonesia continues its transition from an autocratic, centralized state to democratic, decentralized one and has successfully regained macroeconomic and political stability. Poverty reduction remains a challenge, and governance concerns continue to cloud its achievements.⁴

Please refer to Appendix B for some key facts on Public Finance in Indonesia.

¹World Bank - Indonesia Public Expenditure Review 2007

²World Bank - Corporate Governance Assessment 2004

³World Bank - Indonesia Public Expenditure Review 2007

⁴World Bank - Indonesia Country Assistance Strategy 2004 - 2007

National Budget Development and Execution

Indonesia has undertaken initiatives to increase transparency and clarity in the budget process; however the new budget system continues to rely on excessively detailed and input focussed budget documents that require considerable time to prepare and deliberate. Budget execution is typically slow and skewed towards the end of the financial year due to the lack of flexibility in the budgetary system⁵.

Roles and Responsibilities for Budget Management

The responsibility for planning and budgeting is divided between Bappenas, the MOF and the ministries⁶. Please refer to Appendix C for a flowchart of the responsibilities in the public expenditure cycle.

The 1945 Constitution contains the basic budget related provisions and is supported by the State Finance Law 17/2003 and the Treasury Law 1/2004 as well as other government regulations. The President, as head of government has overall authority to exercise national fiscal management; while responsibility for overall fiscal management of central government finances is with the Minister of Finance. The law also assigns responsibility to individual ministers, governors and other local authorities for financial management in their jurisdictions.

Not all provisions of the new laws have been enacted including aspects related to accrual-based income and accounting planned for 2008⁷.

Budget Realisation

Actual government expenditure has consistently deviated from initial plans. Subsidies; as well as transfers to regions tend to be underestimated and realised capital/development expenditures are often less than initially budgeted. Indonesia still spends 50% of its total capital expenditure in the final quarter of the year.

Weak Budget Preparation

Weak budget preparation, in particular the underestimation of oil prices, leads to large mid year budget revisions (issued in August), reducing the credibility of the approved budget and making implementation difficult (as only 4 months remain to implement the revised and often increased budget). This situation had improved in 2006 when the mid year revisions were marginal thanks to the adjusted oil price assumption underlying the budget preparations⁸.

It should be noted, however, that budget forecasts and underlying macro economic assumptions are clearly presented in the budget and projections of these variables are prepared collaboratively by Bappenas, MOF, National Statistics Office (BPS), Bank Indonesia (BI), Ministry of Energy and Mineral Resources (MOEMR) and Coordinating Ministry of the Economy⁹.

Rigid Budget Execution

Detailed input controls aim to ensure that the budget complies with political priorities and the budget will not be altered during execution. Budget Implementing Documents (DIPAs) issued at the beginning of the fiscal year based on budget line items leave little flexibility for reallocation from delayed programs to better performing ones. Reallocations require a lengthy revision process involving parliament (DPR).

Implementation Bottlenecks

Slow disbursement is provided as an explanation for some of the difficulties in efficient budget implementation. In particular, limited capacity for timely completion of procurement processes that are compliant with the tightened procurement rules is holding up disbursement¹⁰.

Inclusion of Donor Contributions in the Budget

The government is currently moving towards recording donor contributions into the national annual budget (on budget). However, it has not been fully implemented. It is regulated under the Government Regulation no. 2/2006 on Procedure for Realization of Loans and/or Grants and Allocation of Foreign Loans and/or Grants.

⁵ World Bank - Indonesia Public Expenditure Review 2007

⁶ World Bank - Indonesia Public Expenditure Review 2007

⁷ International Monetary Fund – Observance of Standards and Codes 2006

⁸ World Bank - Indonesia Public Expenditure Review 2007

⁹ International Monetary Fund – Observance of Standards and Codes 2006

¹⁰ World Bank - Indonesia Public Expenditure Review 2007

Specific Recommendations for Improvement

Fiscal and budget reforms including budget comprehensiveness, elimination of off-budget transactions, moving to a Treasury Single Account (TSA), introduction of Medium Term Expenditure Framework (MTEF), public expenditure tracking surveys (PETS), and pro-poor budgeting should be developed. In addition instruments should be developed for evaluating regional governments, including regional planning and finance. Budget oversight capacity of the provinces needs to be strengthened so that they can provide a meaningful insight into budget formulation and execution processes of the district governments.¹¹

The introduction of performance based budgeting (PBB)¹² (introduced in 2002 at sub-national level with limited success due to insufficient socialisation and training¹³) and processes for rapid in year mobilisation and reallocation of financial resources in disaster situations should be streamlined. In addition enhancing the quality of macro-economic forecasting and modelling and improving revenue estimation are also seen as tools for improving the quality of budgets¹⁴.

¹¹ Asian Development Bank – Country Strategy and Program – Indonesia 2006 - 2009

¹² Performance based budgeting implies that input controls are replaced with output controls and that financial and management responsibilities of implementing units and agencies are increased accordingly. Managers are given the freedom to manage but at the same time are held accountable for their results and this use of public funds (World Bank - Indonesia Public Expenditure Review 2007)

¹³ World Bank – Making the New Indonesia Work for the Poor 2006

¹⁴ World Bank - Indonesia Public Expenditure Review 2007

Compliance with Public Sector Accounting Standards and Internal Control Mechanisms

Fighting corruption is one of the GOIs most important priorities and corruption involving public funds remains a key area of control. With the shift of resources to lower levels of government, fighting corruption at the sub-national level is as critical as at the central level¹⁵.

Public Sector Accounting

The GOI has formulated a Public Sector Accounting Board (PSAB) to help develop and implement new and modern accounting standards¹⁶. Accountability mechanisms designed in Law 22/1999 on Regional Autonomy were weak. Law 32/2004 has significantly improved the conditions for accountability of regional governments.

The accounting basis is described by authorities as “cash towards accrual basis” and the GOI intends to introduce accrual accounting by 2008. The KPPN reports on budget realisations are compiled from transaction records and each spending unit reconciles its records with those of the KPPNs on a monthly basis. These reports present revenues, expenditures and transfers, surpluses/deficits, and financing aggregates, as compared with budget provisions. Monthly and quarterly reports on budget realisation are produced within one month after the end of the month and are available for internal use; but not used as part of a systematic budget review process. A mid-year report on budget realisation is presented to the DPR in July (required by State Finance Law 17/2003) and is made available to the public. Balance sheet aggregates for newly acquired assets and liabilities are valued at cost due to the cash based system of accounting.

State Finance Law 17/2003 also requires audited financial statements of each level of government comprising reports on budget realisation, balance sheet, cash flow statement and notes to the financial statements to be submitted to the respective legislatures not later than 6 months from the end of the fiscal year, beginning in 2007. The GFAS contains a full statement of the government accounting policy¹⁷ however the accounting basis does not meet international standards for full accrual based accounting¹⁸.

Accountability and Internal Control Mechanisms

New planning and budgeting procedures will improve accountability as will the introduction of Minimum Service Standards (MSS). New accounting standards to be introduced under Law 17/2003 on State Finance will strengthen accountability by promoting a performance-based evaluation of budgetary outcomes and stipulating new financial reporting standards in accordance with new public sector accounting standards. Similarly, Law 1/2004 on the State Treasury provides for budget management and financial planning, and debt and property management, and stipulates a consolidated treasury single account (TSA). It also has clear provisions for deterring fraud, mismanagement, and corruption. Thus, a strong legal framework for public expenditure management in accordance with good international practice is in place, but full implementation will take time¹⁹.

Indonesia has begun to undertake important structural reforms that could ultimately lead to more transparent and accountable government but these bold reforms—in significant respects as far-reaching as any country in transition—have been undermined by weak implementation. The legal framework for a more transparent system of public expenditure management is making progress with structural reforms soon to follow. And an institutional infrastructure is being put into place to handle corruption cases²⁰.

Dealing with Corruption

Since 1999 a number of anticorruption laws and instructions have been enacted including Law 28/1999 on Creating a State that is Free of Corruption, Collusion and Nepotism, Law 31/1999 on Eradicating Criminal Acts of Corruption, Law 15/2002 on Eradicating Money Laundering, Law 30/2002 on Establishment of the Commission for Eradication of Corruption, Inpres 5/2004 and the National Action Plan for the Eradication of Corruption (RAN-PK 2004). A range of state auxiliary bodies including the Anti-Corruption Commission (KPK), National Ombudsmen Commission, the Business Competition Supervision Commission (KPPU), the National Law Commission and the Commission for the Eradication of Money Laundering have been established. Serious enforcement of the anti corruption legislation began in 2005 and it is clear that the previous lack of accountability and impunity for public officials is no longer accepted

¹⁵ World Bank - Indonesia Public Expenditure Review 2007

¹⁶ World Bank – Indonesia Country Assistance Strategy 2004 - 2007

¹⁷ The elements of the accounting policy are: cash basis for recognition of revenue, spending, and financing in the report on budget realisation, and accrual basis for recognition of assets, liabilities, and net worth in the balance sheet. Assets are recorded at historical cost or reasonable cost where historical cost is not available. Liabilities are recorded in terms of cash expected to be paid in order to meet them.

¹⁸ International Monetary Fund – Observance of Standards and Codes 2006

¹⁹ Asian Development Bank – Country Strategy and Program – Indonesia 2006 - 2009

²⁰ World Bank – Indonesia Country Assistance Strategy 2004 - 2007

In addition to the KPK the President has set up a taskforce with representatives from the National Police and Attorney Generals Office (AGO) to focus on corruption cases. The KPK, with the ratification of the UN Convention against corruption in March 2006²¹ has become the central anticorruption body as defined in the UN Convention²¹.

Dealing with Complaints and Sanctions

While Presidential Decree (Keppres) No. 80/2003 allows for a complaints mechanism, it is still routed through the user (purchaser) line agencies and is not independent. In addition, the KPK and the KPPU have a role when complaints relate to corruption cases in the case of KPK and unfair competition in the case of KPPU. This arrangement raises issues over the reliability and efficiency of the complaints system.

As for a sanctions mechanism, there are anti-corruption provisions in Keppres No. 80/2003. However, as long as there continues to be no credible independent complaints handling mechanism and weak enforcement with no sanctions for corrupt behaviour, then corruption will continue to flourish²².

²¹ Asian Development Bank – Country Strategy and Program – Indonesia 2006 - 2009

²² World Bank - Indonesia Public Expenditure Review 2007

Control of Cash and Assets

Improvements over Cash Management Needed

The effectiveness of cash management needs to be improved. KPPNs depend only upon the DIPAs provided by the budget user at the beginning of the year for administering disbursements. The discipline for forecasting in-year cash flows at the treasury has not yet been established, but work to develop reliable forecasts of cash flows for treasury operations is now underway²³.

Implementation of a Treasury Single Account (TSA) (State Treasury Law No. 1/2004) is ongoing. A large share of the budget, however, is still being executed through bank accounts held by both spending units and state officials at commercial banks (up to about Rp 8.5 trillion held in some 1,300 current and savings accounts according to the Supreme Audit Institution (BPK) Audit Report 2005). As these funds are not recorded in the treasury system and are of-the-books funds this distorts the consolidated GOI cash balance and are vulnerable to embezzlement and corrupt activities. The adoption of GOI regulations on cash management will enhance the powers of the Minister of Finance to close unauthorized bank accounts and provide legal backing for a census of all GOI accounts in 2007²⁴.

Accounts reconciliation

Reconciliation of fiscal data with individual bank accounts with balance is done effectively and regularly by the MOF. However aggregate reconciliation of monetary and fiscal accounts between MOF and BI is undertaken only once a year, three to four months after the end of the fiscal year²⁵.

Overlapping spending between Central and Sub-national level

There is also an overlap of spending at the central and sub-national levels. Findings from an in depth assessment of selected local government (LG) financial management performance in 15 LGs showed that the institutional and human capacity to manage local funds is low, that financial management processes are weak and there is a lack of transparency and accountability. However certain reform minded LGs in the same assessment did achieve a score of 100% in the areas of cash management and reporting and accounting²⁶. Please refer to Appendix E for details of the results of the PFM performance measurement framework performed by the World Bank.

Transfer of Cash Resources from Central to District Level

Transfer of cash resources from central level to district level is regulated under Government Regulation No. 57/2005 on Grants to Local Government and Minister of Finance Decree No. 52/2006 on Procedure of Provision of Grant to Local Government (including Projects Financed by Foreign Loan).

Before decentralisation, central transfers were mostly in the form of earmarked grants. After decentralisation in 2001, central transfers were designed to minimise the horizontal and vertical fiscal imbalances incurred in providing the regional governments function as stipulated in the decentralisation law. These transfers were thus known as “balancing funds (*Dana Perimbangan*).

Sub – national governments are mainly funded by intergovernmental fiscal transfers. The balancing fund comprises three elements, shared revenues (tax and non tax), a non earmarked general allocation fund (*Dana Alokasi Umum* or DAU) and an earmarked special allocation fund (*Dana Alokasi Khusus* or DAK).

The largest component of the balancing fund is the DAU, which accounts for about 45% of sub-national revenues. The DAU accounts for 56% of kabupaten/kota revenues and only 16 percent of provincial revenues. The largest revenue source for provinces is own source revenue which mostly come from taxes.

Limited capacity for timely completion of procurement processes compliant with tightened procurement rules is holding up disbursement of resources from the central level. This slow disbursement is attributed to downstream issues in the implementation capacity of agencies²⁷.

²³ International Monetary Fund - Indonesia Observance of Standards and Codes 2006

²⁴ World Bank - Indonesia Public Expenditure Review 2007

²⁵ International Monetary Fund - Indonesia Observance of Standards and Codes 2006

²⁶ World Bank - Indonesia Public Expenditure Review 2007

²⁷ World Bank - Indonesia Public Expenditure Review 2007

Procurement

In terms of procurement the legal and regulatory framework for public procurement has been improved, but the capacity to implement procurement in a timely and transparent manner has not kept pace. The National Procurement Policy Office within Bappenas is preparing national-wide procurement policies and procedures, including standardised bidding documents; however the capacity to enforce them across all levels of the GOI is limited. Pilot initiatives for e-procurement are underway and the introduction of basic level training and certification of procurement practitioners are important initiatives, however most public officials lack an adequate career stream of remuneration incentives to take on procurement responsibilities²⁸.

²⁸ World Bank - Indonesia Public Expenditure Review 2007

Audit and Oversight

Strengthening the internal and external audit function has become more important as the PFM system in Indonesia is modernised. Law No. 5/1973 established BPK as the Supreme Audit Institution. The State Audit Law 15/2004 strengthened the role of the BPK. BPK is clearly in charge of the external audit of all government institutions, while the State Development Audit Agency (BPKP), together with the Inspector Generals (IGs) of each Ministry are responsible for the internal audits of central government, and the Bawasda offices manage the internal audits in the regions.

For details on the overall audit landscape in Indonesian please refer to Appendix D of this report.

Supreme Audit Institution (BPK)

BPK is an independent institution. In accordance with the 1945 State Audit Law BPK is only accountable to its board, which is appointed by parliament through a Presidential Decree.

It has a mandate to audit all public institutions at all levels of government, including state owned enterprises (except those that have raised capital through the Indonesian capital markets). Military institutions including the Indonesian Armed Forces or TNI) are not subject to audit and existing regulations have placed limitations on the ability of the BPK to audit revenue agencies such as the tax department²⁹.

BPK Reporting

The reports produced by the BPK are very general and do not have the characteristics of an audit report. Irregularities are presented using broad classifications such as (i) non-compliance, (ii) uneconomic or inefficient practices, and (iii) ineffectiveness. Most irregularities reported to parliament are categorised as non-compliances, but there is no breakdown of this category, and it would encompass a wide range of irregularities from very severe to more trivial offences³⁰.

BPK Staffing

The change in responsibility with the State Audit Law giving a clear mandate to BPK for external audit and BPKP and IGs a mandate for performing internal audits is not clearly reflected in a reallocation of staff between these audit agencies. The result is BPKP is disproportionately well resourced compared to BPK. BPKP has its offices in 26 provinces nationwide whereas BPK has office in only 16 as of end of 2006. BPK has approximately 3,500 staff whereas BPKP has approximately 6,800 staff. In addition relatively limited numbers of trained and certified auditors in Indonesia are not being used and effectively and efficiently as they could be³¹.

State Development Audit Agency (BPKP)

BPKP was established through a Presidential Decree in 1983 and has seen its mandate changed through the issuance of numerous decrees. At present the mandate for BPKP is unclear. It can assist IG's, municipalities and regions upon invitation and provides training for these entities. A separate law on BPKPs own internal governance and management structure is now being developed and is considered essential.

BPKP currently fulfils a role closer to that of external audit than internal, management-orientated audit. It has been entrusted with extensive responsibilities related to central government finances including auditing of the activities of spending ministries. Since decentralisation BPKP no longer has jurisdiction over provincial and district finances (which is now under the mandate of Bawasda). Internal audit responsibilities related to ministries are shared between BPKP and the Inspectorate Generals, with an unclear distinction between their mandates³².

BPK Reporting

Reports from BPKP are not made available to the public or to the DPR, however are presented to the President as well as made available to BPK.

BPKP Staffing

Even with the mandate for BPKP being reduced as a result of State Audit Law 15/2004, it still maintains fully staffed decentralised offices in 26 provinces and its 6,800 staff are under-utilised³³.

²⁹ World Bank - Indonesia Public Expenditure Review 2007

³⁰ World Bank - Indonesia Public Expenditure Review 2007

³¹ World Bank - Indonesia Public Expenditure Review 2007

³² International Monetary Fund – Indonesia: Report on Observance of Standards and Codes- Fiscal Transparency Module 2006

³³ World Bank - Indonesia Public Expenditure Review 2007

Inspectorate Generals

The mandate, staffing and activities of the IG's are determined by the Minister in charge of each respective ministry. As such IG's operate as individual institutions corresponding to the number of ministries. They focus generally on routine technical and performance audits, including compliance audits based on technical standards.

Audits are conducted on a random basis or in accordance with an approved annual work plan, but are not based on a risk based methodology.

IG Staffing

There are estimated to be around 2,300 staff working within all the IG's in Indonesia. The professional background of IG staff generally include technical qualifications and not accounting or financial auditing³⁴.

Bawasda

Bawasda undertakes general audits of regional expenditure covering financial transactions in each of the 33 provinces and more than 440 LGs. There is a Bawasda in each district; however different sources of funding of expenditure are audited by different audit institutions.

Bawasda Staffing

Bawasda staff generally do not possess the skills to undertake all audit activities. Bawasda is consequently supported by the BPKP, the IG's of different ministries, the BPK and the other Bawasda offices in other districts in undertaking internal audits in their respective LGs.

The IG of the Ministry of Home Affairs coordinates the activities of the different audit institutions undertaking internal audit functions in each district.

Bawasda Reporting

Bawasda submits annual audit reports to the respective regional administrators and provides copies to the IG of MOHA, the provincial Bawasda and the auditee. Reports are not made available to the public or DPR, however BPK does submit a consolidated audited report to the DPR covering all the Bawasda³⁵.

Specific Recommendations for Improvement

The separate regulations covering external and internal audit should be consolidated under one law and responsibility for issuing decrees and secondary regulations streamlined to provide greater transparency and facilitate coherence.

In addition synergies could be obtained from consolidating the three internal audit institutions into one to allow for better coordination and less duplication, lower costs in terms of support services, better coordination between the external audit body (BPK) and a single internal audit body and strengthening the independence of internal audit.

The introduction of accrual accounting, in which the budget and financial statements for 2006 are submitted under the accrual basis (State Finance Law 17/2003), should consider current skills levels and training needs for internal and external auditors as well as budget officials and users of national budgets and accounts³⁶.

The need to upgrade staff skills and further augment staffing at BPK has been acknowledged by BPK. In 2006 salaries of BPK auditors were increased due to higher budget allocation which is seen as a positive step³⁷.

³⁴ World Bank - Indonesia Public Expenditure Review 2007

³⁵ World Bank - Indonesia Public Expenditure Review 2007

³⁶ World Bank - Indonesia Public Expenditure Review 2007

³⁷ International Monetary Fund – Indonesia Observance of Standards and Codes 2006

Systems and Staff

The Accounting System

The new accounting system, while maintaining transaction level records on a cash basis, has been adapted to deliver financial statements in formats used for accrual based accounts³⁸.

Civil Service Law

Civil Service Law 43/1999 was adopted but the rules for applying it at CG and LG levels are unclear. The Law assumes a national civil service; however the Decentralisation Law 32/2004 assigns the responsibilities for overall managements of the regional civil service to provincial governments, who are the state representatives under MOHA.

The National Civil Service Agency, MOHA, MOF, the Ministry of State Apparatus Reforms and the National Institute of Administration are all involved in establishing employment and salary conditions. Civil servants are paid according to rank, seniority and position with limited allowances for performance³⁹. Civil service management has been undermined by the opaqueness of the remuneration system, abuse of the rules and procedures, widespread patronage and little enforcement of sanctions⁴⁰.

Human Resources and Accountability

Within Indonesia there are 33 provinces and 450 district and city governments. Many new LGs lack the human and administrative resources to deliver quality public services⁴¹. While decentralisation has placed significant administrative and fiscal authority in the hands of sub-national governments, the divisions of responsibilities and authority among central (CG), provincial (PG) and local governments (LG) remains unclear in many cases creating accountability problems⁴².

Please refer to Appendix E for a chart depicting the LG structure in Indonesia.

Codes of Ethics

There is no single code of ethics covering the entire civil service; however codes of ethics have been established in specific agencies (such as BPKP, BPK and KPK)⁴³.

Specific Recommendations for Improvement

Attracting capable people to the civil service will require better incentives, merit based entry and a more performance based orientated culture. It is noted that some ministries, such as the MOF, are moving to strengthen their organisation structure and improving capacity, however this needs to be replicated across the whole of government to sustain anti corruption efforts⁴⁴.

Staffing systems can be improved by:

- Ensuring that recruitment and promotion are open and transparent and based on clear job descriptions
- Setting proper terms and conditions for contract staff with a view to improving the skills of the civil service and introducing an element of flexibility
- Plan the use of human resources wisely and building a database for human resource planning and management
- Develop predictable incentives for good performance and sanctions for bad performances. Policies for training opportunities and monetary rewards should promote good performance and any such systems should be transparent and monitored closely⁴⁵

³⁸ International Monetary Fund – Observance of Codes and Standards 2006

³⁹ International Monetary Fund – Observance of Codes and Standards 2006

⁴⁰ World Bank – Civil Service Reforms at the Regional Level: Opportunities and Constraints 2005

⁴¹ Asian Development Bank – Country Strategy and Program – Indonesia 2006 - 2009

⁴² World Bank – Making the New Indonesia Work for the Poor 2006

⁴³ International Monetary Fund - Indonesia Observance of Standards and Codes 2006

⁴⁴ Asian Development Bank – Asian Development Outlook – Indonesia 2007

⁴⁵ World Bank – Making the New Indonesia Work for the Poor 2006

4. Methodology and Limitations

4.1. Methodology

Our approach and methodology involved a review of the existing assessments that have been carried out by multilateral development partners of the UNDG over a period of 2 weeks. Please refer to Appendix A for details of the assessments used in compiling this report.

4.2. Limitations

We wish to emphasise that PwC has not performed any of its own primary research into the PFM in Indonesia. It should be noted therefore that this assessment is based entirely on the existing assessments listed in Appendix B. The review of the existing assessments and development of this report did not constitute an audit or examination in accordance with Generally Accepted Auditing Standards or attestation standards. We did not audit or otherwise verify the information relied upon in connection with this engagement, from whatever source. Our work was based on the existing assessments performed by multilateral development partners of the UNDG.

The sufficiency of these procedures is solely the responsibility of UNDG's Executive Committee Agencies. Consequently, we make no representation regarding the sufficiency of these procedures either for the purpose for which this report has been requested or for any other purpose.

Please note that based on the ToR this report is not designed to provide a grade and does not lead to a "pass" or "fail" classification. Instead it is designed to assist Agencies and partners to decide, in conjunction with the findings from the various Micro Assessments performed on Implementing Agencies of the UN, the most appropriate assurance methods and the best procedures for transferring cash.

The information contained in this report is for information purposes only and was created solely for the intended benefit use of three of the UNDG's Executive Committee Agencies, namely UNDP, UNICEF, UNFPA. This report is not intended to be relied upon by any other party or with respect to any specific transaction. PwC will not be liable to any third parties to whom this report is made available.

Appendix A – Bibliography

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⁴⁶ Primary assessments refer to assessments that have been referenced in this report

⁴⁷ Secondary assessments refer to assessments that were reviewed as part of the research into the report. These however have not been specifically referenced in this report.

GOVERNMENT REGULATIONS

Government Regulation No. 57/2005 "Grants to Local Government"

Minister of Finance Decree No. 52/2006 "Procedure of Provision of Grant to Local Government
(including Projects Financed by Foreign Loan)"

Government Regulation No. 2/2006 "Procedure for Realization of Loans and/or Grants and Allocation of
Foreign Loans and/or Grants"

Appendix B – Key Facts on Public Finance in Indonesia

Some key facts on Public Finance in Indonesia include:

- Economic indicators are signalling a string pickup in economic growth at the end of 2006 and into 2007 although recent natural disasters may dampen the upturn⁴⁸
- Provinces and local governments now manage 40% of total public expenditures and carry out more than 50% of public investment
- Total government debt fell below 40% of GDP by the end of 2006
- Exports exceeded US\$100 billion in 2006, growing 18% over 2005 in US dollar terms
- Rupiah Exchange Rate has traded in a stable range between Rp. 9000 – 9,200 for some time⁴⁹
- Spending on subsidies and administration accounts for a 3rd of total expenditures
- Public investment is at pre crisis levels of 7%
- Spending on education was 17.2% of spending and 3.9% of GDP in 2006
- Public health spending is still below 1% of GDP
- Public infrastructure spending is only 3.4% of GDP⁵⁰
- The economy grew by a modest 5.5% in 2006⁵¹ but is expected to pick up to 6.3% in 2007⁵²
- Inflation is projected to average just over 6% in 2006 and 2007⁵³

⁴⁸ World Bank – East Asia Update 2007

⁴⁹ World Bank – East Asia Update 2007

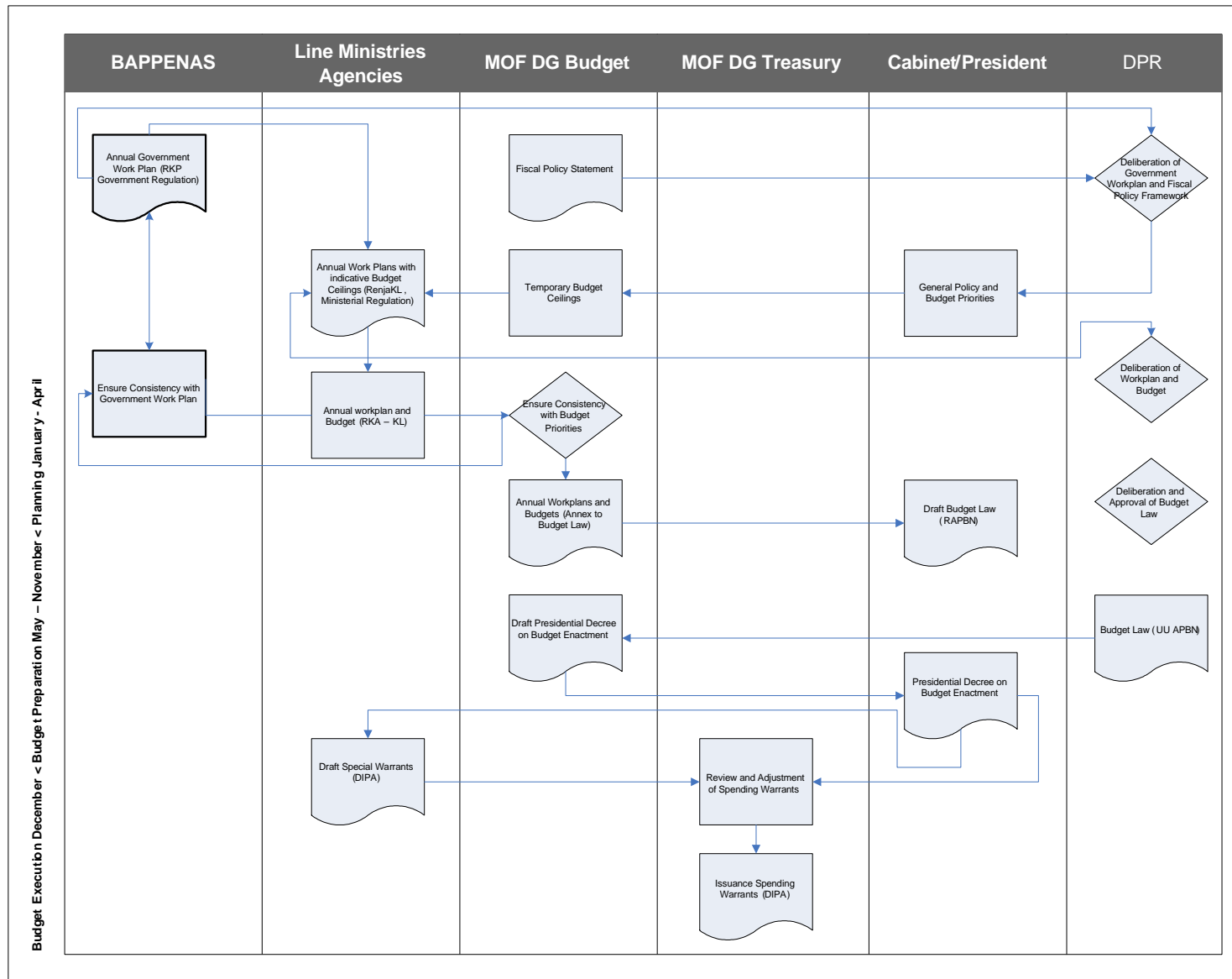
⁵⁰ World Bank - Indonesia Public Expenditure Review 2007

⁵¹ Asian Development Bank – Asian Development Outlook – Indonesia 2007

⁵² World Bank – East Asia Update 2007

⁵³ Asian Development Bank – Asian Development Outlook – Indonesia 2007

Appendix C – Responsibilities in Public Expenditure Management



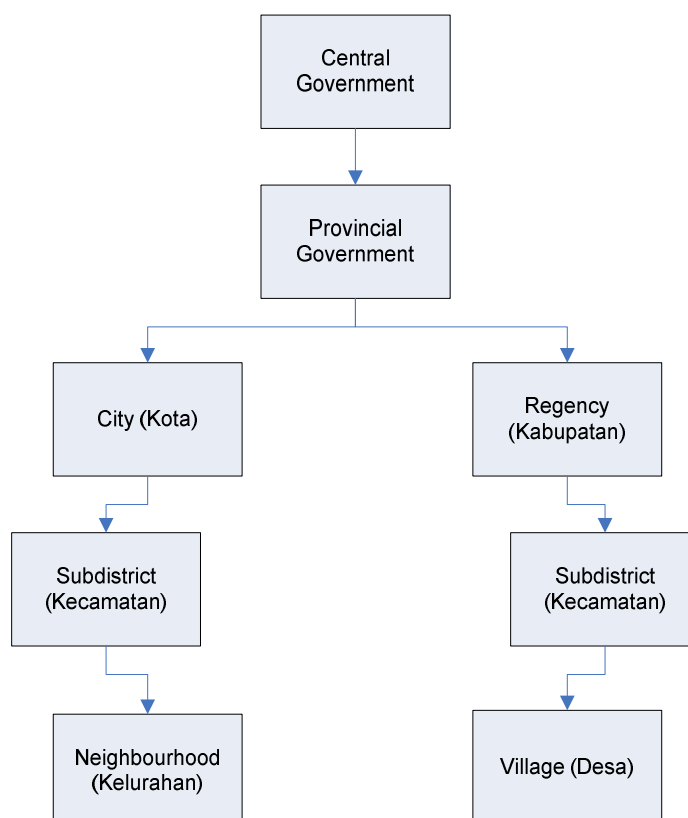
Source: Work Bank – Indonesia Public Expenditure Review 2007

Appendix D – The Audit Landscape

Institution	Is accountable to	Coverage	Capacity	Regional Presence	Type of Audit
External Audit					
State Audit Agency (BPK)	The Audit Board	Whole of Government	3,500 staff	16 Provinces	Mainly compliance audits, occasionally performance audits
Internal Audit					
State Development Audit Agency (BPKP)	The president, through the Ministry of Manpower	Ministries, including deconcentrated spending	6,800 staff	25 provinces	Mainly performance audits
Inspector Generals	Ministers	Ministries, including deconcentrated spending	2,300 staff	NA	Mainly performance audits
Sub-national government internal auditors (Bawasda)	Governors and district heads	Sub-national governments	16,000 staff	All staff work in the 440 districts	Both compliance and performance audits

Source: Table 6.2 – World Bank Indonesia Public Expenditure Review 2007

Appendix E – The Local Government Structure



Source: Fig 3.1 – Asian Development Bank Fostering Public Participation in Budget Making 2006

Areas under Authority of Indonesian Local Governments

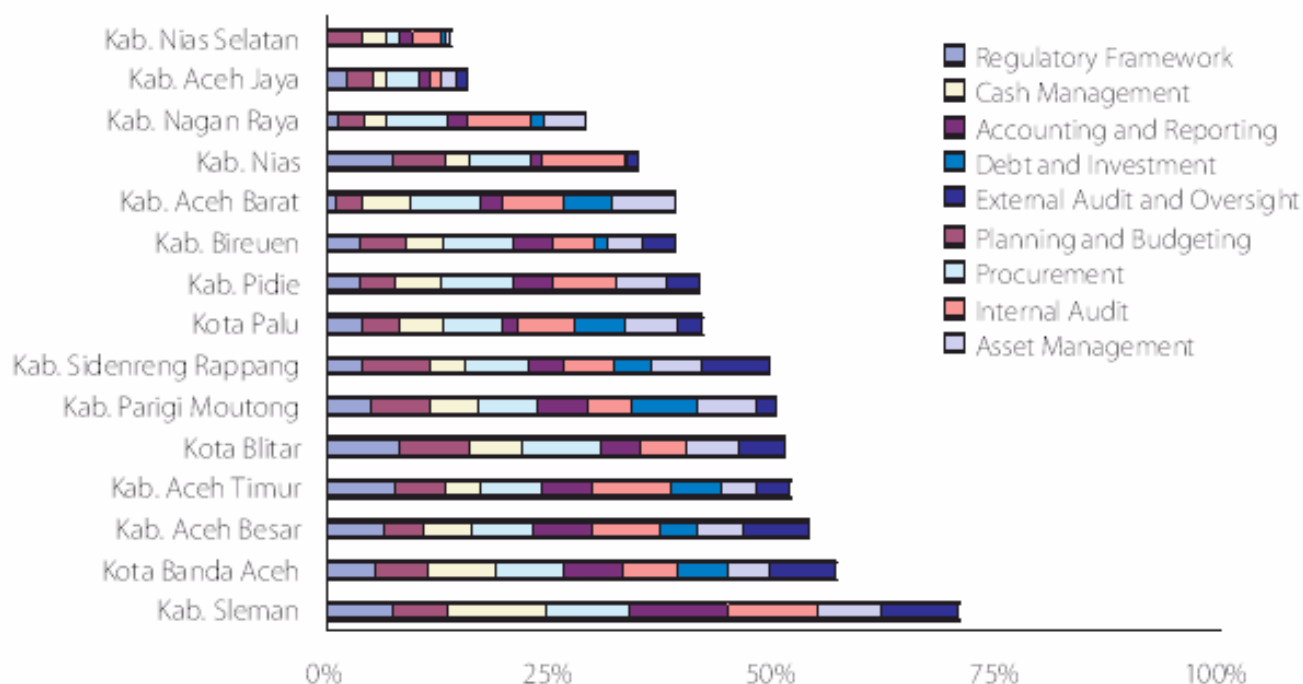
- Planning and control of development
- Planning, utilisation and oversight of land use/zoning
- The conduct of public order and security
- Provision of public facilities and infrastructure
- Public Health
- Education
- Handling social problems
- Services in the labour sector
- Facilitating the development of cooperatives and small and medium sized enterprises
- Environmental management
- Agrarian services
- Population and civil registry services
- General government administrative services
- Investment administration services
- Conduct of other basic services
- Other essential matters as mandated by laws and regulations

Appendix F – Results from the PFM Performance Measurement Framework

The figure below represents the findings from an in depth assessment (and rating on a 100 percent scale) of selected local government financial management in 15 local governments performed by the World Bank, partly with collaboration with USAID-LGSP.

The PFM Performance Management Framework assessed the performance of local government in nine areas of financial management (listed on the left of the figure), measured through indicator score accumulation in each of the nine areas. The overall achievable score for each are was 100%.

The results seen in the figure were derived from the implementation of the financial management measurement framework and reflect the average score of the 15 local governments (three in Sulawesi, two in Java, and eight in Aceh and two in North Sumatra.) in the nine areas piloted in 2006 and 2006.



Source: PFM Survey, 2006

Figure 7.5 Results from the PFM performance measurement framework: World Bank - Indonesia Public Expenditure Review 2007

The findings showed that the institutional and human capacity to manage local funds is still low and that financial management processes are still weak and lacking in transparency and accountability. The average performance, measured against the requirements of national legislation for regional financial management only reaches 44%. However this is contrast to the performance of some reform minded local governments such as the district of Sleman in he province of the Special Region of Yogyakarta which achieved a performance score of 100% in the areas of cash management and accounting and reporting.

For more details regarding the Public Financial management Performance Measurement Framework please refer to the following document available through the World Bank:

Indonesia: Local Government Financial Framework – A Measurement Framework (World Bank Office Jakarta, Ministry of Home Affairs 2005).

Appendix G – Risk Matrix for Discussion Purposes

As noted in this report PwC has not performed any primary research of its own into the PFM system in Indonesia. In addition PwC has not provided its own Risk Assessment based on the assessment reports prepared by multilateral development partners of the UN. The comments noted under “Findings” in the Risk Matrix below are for discussion purposes only and are based on the findings noted in the assessment reports by multilateral partners noted in Appendix A of this report. It is envisaged the UN and the GoI, facilitated by PwC, can use these findings as well as the indicators used in the Risk Matrix to determine and agree on a risk rating for each of the areas listed in the matrix.

No	Indicator	High Risk	Significant Risk	Moderate Risk	Low Risk	Findings
1	The annual budget contains all significant government expenditures, including relevant donor contributions	No			Yes	Summary of Findings: <ul style="list-style-type: none"> - significant government expenditures contained in budget however there are still some off budget transactions - donor contributions planned to be included in annual budget - accrual-based accounting also to be introduced
2	Budgets and Performance	Budget Decisions are only nominally debated. Little consideration of previous performance is taken into account when setting future budgets			Budget decisions are fully debated with assistance from expert committees. Full consideration of previous performance is taken into account when setting future budgets	Summary of Findings: <ul style="list-style-type: none"> - initiatives have been undertaken to increase transparency and clarity in budget process - responsibility of planning with Bappenas, MoF and ministries - budget forecasts and underlying macro economic assumptions are clearly presented and projections prepared collaboratively by Bappenas, MoF, BPS, BI, MoEMR and Coordinating Ministry of the Economy - execution typically slow and skewed towards end of financial year - weak budget preparation, particularly in the estimation of oil price leading to revision being needed - budgets are rigid and reallocations require a lengthy revision process - monthly and quarterly reports on budget realisation are available for internal use but not used as part of a systematic budget review process
3	To what extent are internal controls and financial procedures adhered to?	Procedures are frequently over-ridden or ignored. Emergency procedures are frequently used.	Procedures are generally followed. However there are significant exceptions. Doubts exist as to whether or not the internal control system can be relied upon	Procedures are generally followed. While exceptions exist, they are not frequently enough to prevent reliance on the internal control system	Always	Summary of findings: <ul style="list-style-type: none"> - detailed input controls ensure that budget complies with political priorities - new planning and budgeting procedures and introduction of Minimum Service Standards are expected to improve accountability - legal framework for a more transparent system of expenditure management is making

No	Indicator	High Risk	Significant Risk	Moderate Risk	Low Risk	Findings
						<ul style="list-style-type: none"> progress - institutional framework is being put into place to handle corruption cases - perception of a weak control environment and problems of corruption
4	Bank Reconciliations	Many accounts are not reconciled monthly. Reconciliations are often poorly performed	A number of significant accounts are not reconciled monthly. Quality in some instances is poor	Generally banks are properly reconciled each month. Exceptions exist but appropriate follow up actions is taken in all cases	Performed to a high standard for all bank accounts at least once a month	Summary of Findings: <ul style="list-style-type: none"> - reconciliation of fiscal data with individual bank accounts is done effectively and regularly by the MoF - aggregate reconciliation of monetary and fiscal accounts between MoF and BI undertaken only once a year, three to four months after the end of the fiscal year end
5	Transfers of cash resources	Cash transfers from central/regional levels to project levels takes more than one month	Cash transfers from central/regional levels to projects takes between two weeks and one month	Cash transfers from central/regional levels to projects takes between one and two weeks	Cash transfers from central/regional levels to projects take a week or less	Summary of Findings: <ul style="list-style-type: none"> - currently not all donor funds are included in state budget - transfers of cash resources from central government to sub national governments are slow - limited capacity for timely completion of procurement processes compliant with tightened procurement rules is holding up disbursement of resources from central level. - slow disbursement is attributed to downstream issues in the implementation capacity of agencies
6	Reporting of cash and assets position to the government	Analysis of cash and asset position made to government contains significant omissions			Full analysis of cash and asset position is made to government	Summary of Findings: <ul style="list-style-type: none"> - reports on budget realisations are compiled from transaction records and spending units reconcile their records with those of the KPPNs on monthly basis - reports detail revenues, expenditures and transfers, surpluses/deficits and financing aggregates as compared with budget provisions - newly acquired assets and liabilities are valued at cost due to the cash based system of accounting
7	External audit/the auditor general (supreme audit body)	External audits covers less than 80% of central government expenditures	External audits covers 80 to 90% of central government expenditures	External audits covers 90 % of central government expenditures	External Audits covers all central government expenditures	Summary of Findings: <ul style="list-style-type: none"> - State Audit Law specifies that BPK is in charge of external audits of government institutions while BPKP and Inspectorate Generals performs internal audits of central government and Bawasda performs internal audits in the regions

No	Indicator	High Risk	Significant Risk	Moderate Risk	Low Risk	Findings
						<ul style="list-style-type: none"> - BPK has mandate to audit all state finances and all public institutions at all levels of government, including state owned enterprises (except those that have raised capital through Indonesian capital markets) - military institution are not subject to audit - limitations on ability of BPK to audit revenue agencies such as the tax department - BPKP currently fulfils a role closer to that of external audit than internal, management orientated audit
8	Follow up action to audit reports	Points raised by external audit are infrequently followed up	Points raised by external audit are usually, but not always, followed up. A significant number of points reoccur following years	Points raised by external audit are always followed up. In a few cases points reoccur in following years.	Points raised by external audit are always properly followed up. Points generally do not reoccur in following years	<p>Summary of Findings:</p> <ul style="list-style-type: none"> - reports produced by BPK are general in nature - irregularities presented using broad classifications such as non compliance, inefficient practices or ineffectiveness - there are no institutional arrangements at the legislature for systematic follow up of audit findings
9	Transparency of audit process	Statutory external audit reports are infrequently published. These are rarely debated in the press, even where there is public interest	Most statutory external audit reports are published. These are sometime debated in the press when of public interest	All statutory external audit reports are published. These are sometime debated in the press when of public interest	All statutory external audit reports are published. They are debated in the press when of public interest	<p>Summary of Findings:</p> <ul style="list-style-type: none"> - reports of BPK are subject to scrutiny by elected officials and made available to the public after they are presented to parliament - BPKP reports are presented to the president and those of the IG to the concerned DG, and to the minister. Both these reports are made available to BPK but not to the public
10	Staff qualifications and skills	It is not often clear that staff have the skills and qualifications necessary to discharge their duties	In some cases it is not clear if staff do not have the skills and qualifications necessary to discharge their duties	In only some isolated case it is not clear if staff do not have the skills and qualifications necessary to discharge their duties	It is always clear that staff do have the skills and qualifications necessary to discharge their duties	<p>Summary of Findings:</p> <ul style="list-style-type: none"> - staffing at BPK is not commensurate with its mandate as Supreme External Audit body - relatively limited numbers of trained and certified auditors in Indonesia - many new local governments lack human and administrative resources to deliver quality public service - a number of ministries are strengthening the organisation structure and improving capacity
11	Financial systems	Financial systems only capture and report on the most basic financial data, and this system is unreliable. System maintenance and performance is generally poor	Financial systems only capture and report on the most basic financial data. While there are system maintenance and performance problems, generally the system is stable	Financial systems are adequate for most but not all existing date capture and reporting needs. They are reliable and properly maintained	Financial systems are adequate for all existing data capture and reporting needs. They are reliable and properly maintained	<p>Summary of Findings:</p> <ul style="list-style-type: none"> - the financial system maintains transaction level records on a cash basis - it has also been adapted to deliver financial statements in formats used for accrual based accounts

Appendix H –Recommendations for Future Capacity Development

A large number of recommendations are presented in the Primary and Secondary Assessments used in the compilation of this report and some of these have been included in this report between pages 4 – 12. The detailed recommendations noted in the assessment reports reviewed have been summarised under the various categories below to assist in the development of capacity building/development recommendations that are appropriate for the UN Ex Com agencies to support jointly with other donors:

No	Assessment Area	Recommendations
1	National Budget Development and Execution	<p>Policy Recommendations:</p> <p>Ongoing reforms in budget preparation and execution would benefit from a continuous systematic evaluation of Indonesia’s budget system. In addition to typical expenditure reviews such as the one performed by the World Bank further activities that should be considered include:</p> <ul style="list-style-type: none"> - (i) the use of public expenditure tracking surveys to identify leakages; - (ii) an updated Country Procurement Assessment Report (CPAR) to assess progress in procurement modernisation; and - (iii) an analysis of the role of parliament in ex ante and ex post oversight of the budget <p>Budget formulation and execution:</p> <p><i>Continue introduction of performance based budgeting (PBB) and a Medium Term Expenditure Framework</i></p> <ul style="list-style-type: none"> - This requires a long term vision - A realistic, operational and comprehensive road-map for budgeting reforms is currently being prepared - This should take into account the unique Indonesian governance setting, weak control environment and well known problems of corruption - In the short terms achievable, demonstrable and well defined changes should be introduced - These could include the review and simplification of budget documents and procedures, establishment of annual output statements for departments and programs, as well as the authorisation of multi-year budget appropriation for large investment projects <p><i>Output controls to replace the use of input controls and line item budgeting</i></p> <ul style="list-style-type: none"> - This is considered integral to the introduction of a PBB system - Reform in this area however should proceed with caution and ex post controls should be strengthened before input controls are relaxed given the governance issues prevalent in Indonesia and the weak ex post control in place at present <p><i>Budget deliberations and approvals should be adjusted to focus on spending priorities and policies</i></p> <ul style="list-style-type: none"> - Currently deliberations in parliament tend to focus on line items and discussions of details rather than overall allocations, political priorities and achievement of results - Capacity building measures, as well as institutional reforms should focus on clarifying the role of DPR in budget formulation with the aim of focussing on results and spending priorities <p><i>Process for rapid in-year mobilisation and reallocation of financial resources in disaster situations should be streamlined</i></p> <ul style="list-style-type: none"> - Development of a fast track budget process for use in times of extraordinary need for public expenditure, while maintaining sufficient accountability safeguards to ensure that public funds are spent efficiently and effectively should be undertaken

No	Assessment Area	Recommendations
		<p><i>Improve and enhance quality macro-economic forecasting and modelling and improving revenue estimation</i>⁵⁴.</p> <p>Continue with fiscal and budget reforms including</p> <ul style="list-style-type: none"> - budget comprehensiveness, elimination of off-budget transactions, moving to a Treasury Single Account (TSA), introduction of Medium Term Expenditure Framework (MTEF), public expenditure tracking surveys (PETS), and pro-poor budgeting - instruments should be developed for evaluating regional governments, including regional planning and finance. - improvements to budget oversight capacity of provinces so that they can provide meaningful insights into budget formulation and the execution processes of the district governments.⁵⁵
2	Compliance with Public Sector Accounting Standards and Internal Control Mechanisms	<p>Accountability and Internal Control Mechanism</p> <p><i>Continue with full implementation of legal framework, including</i></p> <ul style="list-style-type: none"> - new accounting standards including the introduction of performance based evaluation of budgetary outcomes and new financial reporting standards in accordance with new public sector accounting standards under Law 17/2003 on State Finance, - budget management and financial planning, and debt and property management as well as the use of a consolidated Treasury Single Account (TSA) under Law 1/2004 on State Treasury - procedures and the introduction of Minimum Service Standards⁵⁶ <p><i>Continue anti corruption efforts</i></p> <ul style="list-style-type: none"> - introduction of a credible independent complaints handling mechanism - continue to improve enforcement of anti corruption legislation and sanctions for corrupt behaviour⁵⁷
3	Control of Cash and Assets	<p>Cash Management</p> <p><i>Continue with improvements to effectiveness of cash management</i></p> <ul style="list-style-type: none"> - continue to develop the disciplines for forecasting in year cash flows in the treasury⁵⁸ - continue implementation of Treasury Single Account (TSA) - reduce off budget transactions by reducing the number of bank accounts held by both spending units and state officials at commercial banks⁵⁹ <p><i>More regular aggregate reconciliations of monetary and fiscal accounts between MoF and BI</i></p> <ul style="list-style-type: none"> - while reconciliation of fiscal data with individual bank accounts with balance is done effectively and regularly by the MOF, aggregate reconciliation of monetary and fiscal accounts between MOF and BI is undertaken only once a year, three to four months after the end of the fiscal year⁶⁰. <p><i>Reduce overlapping spending between central and sub national level</i>⁶¹</p> <p>Procurement Recommendations</p> <p><i>Establishment of a new procurement agency to assist in fighting corruption, leading to lower input prices and improved procurement governance</i></p> <ul style="list-style-type: none"> - In addition the roll out of a comprehensive e-procurement strategy should be pursued to contribute to increased market transparency and competition⁶²

⁵⁴ World Bank - Indonesia Public Expenditure Review 2007

⁵⁵ Asian Development Bank – Country Strategy and Program – Indonesia 2006 - 2009

⁵⁶ Asian Development Bank – Country Strategy and Program – Indonesia 2006 - 2009

⁵⁷ World Bank - Indonesia Public Expenditure Review 2007

⁵⁸ International Monetary Fund - Indonesia Observance of Standards and Codes 2006

⁵⁹ World Bank - Indonesia Public Expenditure Review 2007

⁶⁰ International Monetary Fund - Indonesia Observance of Standards and Codes 2006

⁶¹ World Bank - Indonesia Public Expenditure Review 2007

⁶² World Bank - Indonesia Public Expenditure Review 2007

No	Assessment Area	Recommendations
4	Audit and Oversight	<p>Audit and Oversight Recommendations</p> <p><i>Separate regulations covering external and internal audit do not provide for coordination and clarity</i></p> <ul style="list-style-type: none"> - consolidating regulations under one law and streamlining the responsibility for issuing decrees and secondary regulations would provide greater transparency and facilitate coherence <p><i>Synergies from consolidating the three internal audit institutions into one</i></p> <ul style="list-style-type: none"> - consolidating of the internal audits institutions would have the following benefits <ul style="list-style-type: none"> o better coordination of internal audit without duplication o more resources available to undertake the development of new audit products and potential for lower costs for support services such as management, HR and finance management and management o better coordination and cooperation between internal and external audit institutions as these would only be two parties to coordinate o strengthening the independence of internal audit, particularly at sub national level <p><i>Dealing with the implications of the introduction of accrual accounting</i></p> <ul style="list-style-type: none"> - the phased introduction of the accrual accounting has huge implications for the skills of budget officers, auditors and users of national budgets - the phased introduction of these reforms should be planned taking into account the current skill levels and should include training activities for internal and external auditors, amongst others⁶³
5	Systems and Staff	<p>System and Staff Recommendations</p> <p><i>Attracting capable people to the civil service will require better incentives, merit based entry and a more performance based orientated culture⁶⁴.</i></p> <p><i>Staffing systems can be improved by:</i></p> <ul style="list-style-type: none"> - ensuring recruitment and promotion is open and transparent and based on clear job descriptions - setting proper terms and conditions for contract staff with a view to improving the skills of the civil service and introducing an element of flexibility - plan the use of human resources wisely and building a database for human resource planning and management - develop predictable incentives for good performance and sanctions for bad performances. Policies for training opportunities and monetary rewards should promote good performance and any such systems should be transparent and monitored closely⁶⁵

⁶³ World Bank - Indonesia Public Expenditure Review 2007

⁶⁴ Asian Development Bank – Asian Development Outlook – Indonesia 2007

⁶⁵ World Bank – Making the New Indonesia Work for the Poor 2006