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Reform of Planning, Budgeting of State Revenue and Expenditure and Management of State Finance Based on Law No 17 Year 2003 on State Finance

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Abstract:
Indonesia public financial management and planning framework has been undergoing major institutional reforms. The present structure and the procedures for preparing and deciding on the budget are the result of a series of reforms initiated and implemented in a very short time starting in 2001.The impetus to the reform came from the financial and economic crises affecting the government finances at the end of the 1990s. Law 17/2003 on State Finances consolidated routine and development expenditures into a unified budget and provided for medium term expenditure planning and performance-based budgeting. Law 1/2004 on State Treasury stipulated provisions on budget execution, debt and asset management, and a consolidated Treasury Single Account for the whole of government administration. Law 25/2004 on Development Planning paved the way for better integrating planning and budgeting processes.

Keywords: *Financial reform, Law 17/2003 on State Finances, unified budget*

1. Introduction

The Law on State Finance in principal regulates the general principles of state finance. The new things and fundamental changes in the state financial provisions stipulated under the Law No. 17 of 2003 includes the stipulation of the definition and scope of state finances, affirmation on the position of the President as the general holder of state finance, arrangement of budget delegation management authority to the Minister of Finance and Minister / Institutional Leaders, affirmation on the position of the Governor of the Cen tral Bank as the manager of monetary policy and regulation of the relations of fiscal and monetary authority, affirmation on the principle of decentralization in the field of state finance, preparation of national strategic plans by the National Planning Board consisting of the government and community members, the establishment of the budget structure, the establishment of settlement in the event of the State Budget Draft (RAPBN) is not approved by the DPR, the establishment of general principles of management of state and regional budgets, as well as setting out the government's obligation to present the Government's balance sheet and the State Enterprise Financial Report in the annual stewardship of the state finances.

Law No.17 of 2003 regarding State Finance contains various fundamental changes in the budget approach. State financial management reforms include aspects of applying the budgeting approach with a medium-term perspective (Medium Term Expenditure Framework), the application of integrated budgeting (Unified Budget) and the application of a budget based on performance (Performance Budget).

The enactment of Law no. 17 of 2003 will bring significant changes. Imagine, the country's financial management system will undergo a complete overhaul and leave the current financial management system that has been identified to contain many weaknesses. Some of the weaknesses that emerge from the current financial management system are:

- There are inefficiencies that do not rule out the possibility of financial waste on the increasingly limited state finance.
- Budgeting duplication due to the similarity of activities funded by routine and development budgets, it was allegedly the cause of state financial waste.
- In addition, there are still encounter pattern of closed, unprofessional and disproportionate of state financial management making it difficult to realize good-governance and clean-government that have become the demands of today society.

Conditions as mentioned above, are recognized as an accumulation of current weaknesses in the management of government finances which include weaknesses such as in the field of legislation, planning and budgeting, treasury and audit.

Law No. 17 of 2003 calls for the application of the principles of state financial management which include:

- Results-oriented accountability,
- Professionalism,
- Proportionality,
- Transparency in management,
- And performance of financial audits by a non-affiliated and independent auditing bodies.

Based on these principles, changes are expected to occur from the preparation, implementation, to budget accountability. At the budgeting stage, based on the aforementioned principles there will be a different approach to the preparation with the current system. At this stage, budgeting will use a performance or results-based budgeting system approach. This type of budgeting also does not use routine budgets and development budgets anymore. Lateron, the budget will be integrated into one department's budget document. While the budget classification needs to be adjusted according to the classification according to GFS (Government Finance Statistics) which is based on organization, function and based on economic classification.

Likewise, in budget execution and budget accountability. Based on the principles of financial management, there will be a fundamental change in the government's financial management system. One of them is the enactment of provisions regarding personal responsibility for deviations in the performance of the budget.

2. Issue

The emergence of Law No.17 of 2003 replaces the previous law as an effort to reform in the field of state finance to improve efficiency, accountability and professionalism. The change was made since in the budgeting process that currently perform is considered to have several weaknesses, such as:

- Lack of a correlation between policy, planning, budgeting and performance.
- Budgeting that has a one-year horizon.
- Budgeting based on inputs.
- Separation between routine budgets and development budgets.

On the other hand, the planning and budgeting process of the new State Budget (APBN) in its performance still contains several problems and shortcomings, those are:

- The government ranks, especially the Ministry of Finance that involved and the DPR Budget Committee practically work for most of the year, from March to October, to discuss and endorse the APBN. The governance bureaucracy mechanism at the executive level and the hearing session schedule and procedure in the DPR are often not in line.
- DPR's on the APBN to the types of expenditure, organization and function is well-intentioned and ideal for budget discipline. However, it is often difficult for both parties because the depth of the material and the urgent time often requires compromises. The dependency of the executive as a budget planner and implementer with the legislature as the holder of the budget controller becomes very high, thereby reducing executive flexibility in fiscal policy.
- On the executive side, especially departments and institution of the budget user that are not currently familiar with budget discipline, tend to be resistant to systems that require high accountability. As a result, delays in disbursements occur and the development program is sacrificed.
- The occurrence of Delays due to overlapping cases in the preparation and verification of DIPA and RKAKL in the Directorate General of Budget and Fiscal Balance (DJAPK) and Directorate General of Treasury (DJPb) Ministry of Finance. However, it is hoped that this will not happen again in 2006.

In the budget planning stage, the reforms carried out were changes on the dual budgeting system (DBS) to a unified budgeting system (UBS). DBS which has been known so far is in the form of separation between routine expenditure and development expenditure. The UBS (integrated budgeting) is the preparation of an annual financial plan that is carried out in an integrated manner for all types of expenditure in order to carry out government activities with the principle of efficient allocation of funds.

In addition to changes in the planning cycle, reforms in the field of state finance also have a positive impact on the third cycle of the state budget, that is in the performance of the budget. The minister / head of the institution / head of the regional apparatus as the budget user conducts accounting on the financial transactions, assets, debts, and equity funds, including income and expenditure transactions that are under their responsibility.

2.1. Conception of the State Financial System

State finance can be define as (Sumosudirdjo et al, 1983),

'All rights and all obligations that can be valued in money, as well as everything in the form of money or goods that can be used as a country wealth, in relation to the implementation of those rights and obligations'.

Further definitions of state finances are contained in Supplement to the State Gazette No. 2776,

With state finances not only include the state money, but all state assets, including all rights and obligations arising there from, whether that wealth is under the authority and management of officials and / or institutions that are included in the general government or under the control and management of Government banks, Government foundations, with both public and private legal status, businesses in which the Government has special interests and in the control and agreement with the Government's participation or appointment from the Government.

Nevertheless, under the Law No. 5 of 1973 regarding the Audit Board, there are no clear limitation regarding the definition of state finances. However, in this Law in article 2 paragraph (1) the task of the Audit Board is determined for an accountability in auditing state finances. In paragraph (2) it is stipulated that the Audit Board as referred to in paragraphs (1) and (2) is performed based on the provisions of the Act.

In more detail under the annotation of article 2 paragraph (1), (2), and (3) the inspection tasks referred to in the state financial accountability including:

- The Performance Of APBN
- The Performance Of APBD
- The Performance Of A Of State-Owned Companies' Budget
- The Entire State Wealth
- In Relation To The Examination Of The Things That Have Been Done Or Performed And Its Accountability Report Pada Have Been Arranged (Post Audit), Either In Part Or In Full

Principally, the audit task also includes assessment on whether the disbursement of the state money performing accordance to the provisions of the APBN and the provisions regarding the control and management of state finances as well as an assessment of whether the use of state finances has been carried out in ways that can be accounted for in accordance with those specified.

On the other hand, state finance can be defined as (Musgrave, 1958). *'The complex of problems that counter around the revenue and expenditure process of government is referred to traditionally as public finance'*

From the above definition it can be concluded that state finance covers issues that revolve around revenue and expenditure by the Government, therefore the state finance can have a broader meaning in practice. It is necessary to have a clear classification in the division of which is included in income and expenditure in a country. Briefly state finances include:

- All Government revenues and expenditures, both at the central and regional levels
- All state assets in the Departments and State Institutions and Non-Departmental Government Institutions including their vertical institutions
- All regional wealth along with its vertical agencies
- All state assets are separated
- All assets of entities, both from public and private legal entities that are financed or subsidized by the state, or where the state has a financial interest

Principally, the concept of state finances still does not have a final formation, so there is still frequent debate. There are at least two fundamental things regarding the responsibility of state finances as in article 23 paragraph 5 of the 1945 Constitution regarding responsibilities of the performance of the APBN, in other cases the provisions of article 2 paragraph (1), (2) and (3) of Law 5/1973 are the scope of audit that must be performed by the Audit Board. These two things are interrelated or explaining to each other. What is crucial is that the country's financial system itself still refers to the modified *Indische Compatibilities Wet* Stbl 1925 No. 448 and in addition to the Law No. 9/1968 or known as ICW. In other words, the upcoming APBN management system still refers to ICW.

Moreover, about the tasks of the Audit Boardunderthe article 2 of Law No. 5 of 1973 still involves a broad scope. This is explained in the explanation that the accountability of state finances includes, among others, the APBN, Regional Budget, Revenue, and Expenditure (APBD) as well as the budget of state-owned companies, essentially all state assets. In another sense there are unclear boundaries of what is meant by state finance in this case. Besides that, Article 33 Paragraph (3) of the 1945 Constitution stipulates that the earth and water from the natural resources contained therein are controlled by the State and are used for the greatest prosperity of the people, meaning the state's wealth is included in the scope of state finances. Therefore, the scope of state finances includes the APBN, APBD, BUMN / BUMD budget, earth, water and natural resources contained therein which are essentially the entire state assets.

Management of state assets in Indonesia is divided into two types, those are:

- General management or administrative management
- Special management or treasurer management

In this case the similarity is that both in general management and in special management, both contain elements of management and elements of accountability. Whereas the difference is the general management is broad in nature and special management is specific in nature. General management contains elements of control while special management contains elements of obligation. According to Sumosudirdjo et., Al., (1983) all orders, arrangements and instructions is made by the general administration, while the special arrangement is obliged to carry out the orders, regulations and instructions.

General management is closely related to the implementation of state tasks in all fields that will have an impact on the expenditure of state finances and bring revenues or income to cover the country's spending or expenditure. Considering the very broad and diverse performance of state tasks with limited financing possibilities, it is necessary to formulate a financial plan that will be carried out for the future, which is usually made for one year. This financial plan, known as the State Revenue and Expenditure Budget (APBN), is prepared annually to perform the state tasks and continue the wheels of the Government. The Government of the Republic of Indonesia, as mandated in the Preamble of the 1945 Constitution, is tasked with protecting the entire Indonesian nation and promoting public welfare, educating the nation's life and participating in carrying out world order based on the independence of lasting peace and social justice.

While the authorities who carry out the general management of state finances consist of two groups, the first group called the primary authority or known by the name of the authorization and the second group is called the secondary authority or known as the ordinance. The one who acts as the primary authority or first authorizer is the president. Furthermore, in practice delegated to the ministers and other appointed officials, these authorities are given the task of maintaining the public interest in order to achieve two main objectives, those are:

- Establish and maintain an orderly state of law
- Fostering social welfare in the broadest sense. Primary authority or the authorization is the official authorized to take actions that result in expenditure and / or revenue for the state

The President as a secondary authority in his daily practice is carried out by the Minister of Finance. In this case the other ministers, if taking actions that will bring consequences of the state's financial expenditure, always require the approval of the finance minister as an official of the ordinance. An ordinance is an official authorized to:

- Check all claims to the state
- Imposing state expenditure
- Issuing a Payment Order (SPM/Surat Perintah Membayar)
- Issuing a Billing Letters(SPN/Surat Penagihan)

The Minister of Finance in carrying out its duties and functions as an ordinance has officials within the ranks of the Directorate General of Budget. Whereas those appointed to carry out special arrangements have always been known as *Comptables* and are now known as Treasurers. Provisions on the treasurer (*Comptable*) is contained under the article 77 (1) of the ICW which stipulates,

Treasurers are people and agencies who because of the state, are assigned to receive, save, pay and disburse or transferring money, or valuable papers and goods in warehouses or other places of storage as meant by article 55 ICW and as such are required to provide calculations and accountability regarding their arrangements to the Audit Board.

Whereas the regulation under article 55 of ICW,

The management of goods in state warehouses and other storage facilities is under the supervision of the Audit Board, based on and in a manner determined by general regulations.

Whereas the treasurer takes care of:

- Only state money, or money owned by other parties which is controlled by the state and is in the state treasury. In this sense, including valuable papers. An example is a Payment Order (SPM) which is also called a mandate, stamp duty and stamp
- Only goods belonging to the state or goods belonging to other parties that are controlled by the state and are in storage or other storage facilities
- Managing money and state property

Principally, the treasurer is responsible to the Minister of Finance or the Head of the Institution that appoints them. In the final stage, the treasurer is audited by the BPK who has the authority to make trial, which is to conduct a claim of indemnification against them, if the treasurer commits a reprehensible act or negligence of their duties which resulted in losses for the state.

2.2. Literature Review and Budgeting Theory Framework

Budgeting has an important role in planning, controlling and evaluating government operations. The three stages of the budget are important aspects of the budget approach and process.

2.2.1. Planning

Planning is a process of creating organizational goals. Successful organizations coordinating for long and short term. This is related to organizational objective and direction of the objective. Planning is important because the type, quantity and quality of service performance and government procurement are not evaluated and adjusted through open market mechanisms and they are quite sensitive to the public interest. Further, government planning and decisions are a joint process involving citizens, legislative and executive bodies.

2.2.2. Control

Budgeting is government control relating to legislative control of the executive and executive control of the government or department. Therefore, the accounting system must provide information that can make departments maintain expenses in accordance to executive limits. So the executive must maintain overall government spending in accordance with the limitation from the legislature.

2.2.3. Evaluation

Financial reports that compare between budgeted and actual income and expenses for a certain period as a basis for evaluation of the existing standards. Budgeting also provides clear objectives for performance evaluation at each level of responsibility.

Budget according to The National Committee on Governmental Accounting,

'A budget is plan of financial operation embodying an estimated of proposed expenditures for a given period of time and the proposed means of financing them'

Therefore, it can be concluded from the definition above that budget is a financial operational plan that includes an estimated expenditure for a certain period and the revenue plan to finance. On the other side budget also defined as (Razek & Hosch, 1995),

'A formal estimate of the resources that an organization plans to expend for a given purpose over a given period and the proposed means of acquiring these resources. It informs the reader of what activities the organization plans to undertake and how the organization expects to finance these activities and thus it acts as a standard against which efficiency and effectiveness can be measured.'

In addition, the budget can also be defined as the process of allocation of limited resources to unlimited demand and currency units in planning operations for a certain period. Planning must contain information about the types and amounts of planned expenditures, the set objective and tools of financial objective (Freeman & Shoulders, 1999).

2.3. The Importance of Budget

Budgets for public sector organizations originate generally from the use of tax rates or amounts used for services. The role of planning achieved by monetary measures (such as materials, workers and equipment) is needed to achieve planned activities in a budget period. The role of control is achieved by preparing a budget that shows clear input and resources in the allocation of government organizations to allow for responsible task. Control can be done by comparing a budget with its actual results to ensure the level of expenditure does not exceed and the planned activities are achieved. The variance between the budget and the actual result shows the divergence of the plan. Unless the reason for the divergence being analyzed and corrective steps delivered to the budget and return to the actual line, the whole system will be out of control. Therefore, relevant conditions, accurate and timely reports of actual positions and the budget are needed at each level of management to be monitored according to the budget.

In developing a budget system there are five types of budgeting systems, that is:

- *Line Item Budgeting*, is the preparation of a budget based on and from where the funds originated (income items) and for what the funds are used (expenditure items)
- *Incremental Budgeting* is a system of expenditure and revenue budget that allows revision during the current year, as well as the basis for determining the proposed budget for the coming year period. Figures in expenditure items which are changes (increase) from previous period figures. The problem that must be decided together is the incremental method of the previous year's budget figures. The logic of this budget system is that all activities carried out are a continuation of activities from the previous year.
- *Planning Programming Budgeting System*, is the process of planning, making programs and related budgeting in a system as a unified, non-separable unit and contains the identification of organizational objective, problems that may arise. The process of organizing, coordinating and supervising all the activities needed and considering the implications of decisions on various activities in the future.
- *Zero Base Budgeting* is a budget system based on estimated activities, not on those that have been carried out in the past. Each activity will be evaluated separately. This means that various programs are developed in the vision of the related year.
- *Performance Budgeting* is a technique for preparing a budget based on workload and unit cost considerations for each structured activity. The structure here begins with the achievement of objectives, programs and is based on the idea that budgeting is used as a management tool. Budgeting guarantees the success of the program, both in the executive and legislative branches. Therefore, the budget is considered as a reflection of the work program.
- MTEF is a framework of the Government's policy strategy on budget for departments and non-departmental government agencies. This framework gives the department greater responsibility for determining the allocation and use of development funding. The success of an MTEF depends on the mechanism of aggregate budget decision making based on priority scale. In the MTEF mechanism, the budget component is set (top down), the proposed budget estimate (bottom up) and the adjustment of the estimated budget, adjusted according to available resources.

The level of readiness to build MTEF depends on the state's financial condition. The instability of fiscal policy will lead to inappropriate allocation of resources for various programs or work units. In addition, the integration of planning, budgeting and implementation policies will result in difficulties in allocating funds as in Indonesia. In Indonesia, the allocation of funds is still dominated by political aspects. If there are certain expenses that are unsustainable (such as salaries and wages, pension and interest payments) then it takes longer to produce a more reliable MTEF. If these conditions must be faced, then changes in the structure of budget expenditures need to be made.

Therefore the budget cycle for the implementation of state finances is an important thing for the Government accounting system that starts from the preparation of the budget plan, submission of the draft State Budget (RUU APBN) to the DPR, discussion and approval of the DPR so it becomes the State Budget Law (UU APBN), implementation of the budget by the government, supervision and examination of the implementation of the budget by functional supervision apparatus until the submission of the RUU PAN becomes a PAN Law. In general, the Republic of Indonesia's state budget cycle can be divided into 5 stages:

- Preparation of the budget and submission of the RUU APBN by the Government to the DPR
- Discussion and approval by the DPR on the RUU APBN followed by the establishment of the APBN Law
- Implementation of budget, budget accounting and financial reporting by the Government
- Supervision and examination of the implementation of the budget and budget accounting by the functional supervisory apparatus
- Discussion and approval of the DPR on draft of the calculation of the APBN as the Government's responsibility for the implementation of the APBN and continued with the stipulation of the PAN Law

When compared with the state budget cycle the United States is divided into 4 stages:

- *Executive formulation and transmittal*
- *Congressional authorization and appropriation*
- *Budget execution and control*
- *Review and audit*

The difference between the state budget cycles of Indonesia and the United States lies in the fifth stage of the discussion and approval of the DPR on the calculation of the state budget as the Government's responsibility for the implementation of the APBN and the enactment of the PAN Law. Whereas the fundamental difference is the institution that gives approval to the plan of the state budget. In Indonesia, the one that gives approval to the state budget plan is the DPR not the MPR, while in the United States approval of the budget plan is given by the congress (MPR) not just the House of Representative (DPR).

In addition, the budget adopted by the Republic of Indonesia adheres to a balanced budget while the United States adheres to a deficit spending budget system. Another difference lies in the fiscal year for each country, namely the fiscal year of the Republic of Indonesia from January 1 to December 31 of the following year, while in the United States, the fiscal year from October 1 to September 30 of the following year.

2.4. Implementation of Dual Budgeting System

For more than 32 years, the government has implemented a budget system known as 'dual budgeting,' in which the state budget is separated from the routine and development budgets. The separation of the routine budget and the development budget was originally intended to emphasize the importance of development, but in its implementation has shown many weaknesses (Abhimanyu, 2004).

First, the duplication between routine and development expenditure due to the lack of separation between the operational activities of the organization and the work units (satker), especially non-physical activities. Thus, performance is difficult to measure because the allocation of existing funds does not reflect the actual conditions.

Second, the use of a 'dual budgeting system' encourages dualism in the Preparation of an estimated budget output list (MAK) because for one type of expenditure, there are MAKs that are created for routine expenditure and there are other MAKs set for development expenditure.

Third, analysis of expenditure and program costs is difficult because routine budgets are not limited to operating expenditures and development budget expenditures are not limited to investment expenditure.

Fourth, projects that receive development budgets are treated the same as spending units, that is as an accounting entity, although the projects are only temporary. If the working unit (satker) has been completed or terminated, there is no continuity in accountability for the assets and liabilities of the project. Besides causing inefficiencies in financing government activities, it also causes unclear links between outputs / outcomes achieved and organizational budgeting.

2.5. T-Account to I-Account

Before 2001, the principle of the APBN was a dynamic balanced budget, in which the amount of state revenue was always the same as the state expenditure, and the amount was strived to increase from year to year. Since 2001 until now, the principle of budget used is the budget surplus / deficit. In line with that, the format and structure of the APBN changed from T-Account to I-Account. The format and structure of the current I-account consists of:

- State Revenue And Donations,
- State Expenditure
- Financing.

State revenues and donations accommodate all state revenues originating from the first, taxation revenues, second, non-tax state revenues (PNBP), and thirdly, donations. Whereas state expenditure accommodates all state expenditure, which consists of first central government expenditure, which includes routine expenditure and development expenditure, and secondly expenditure for the region, which includes balancing funds and special autonomy funds and balancing / adjustments. The difference between state revenue and donations to the state expenditure will be in the form of budget surplus / deficit. To cover the budget deficit, financing is needed that is sourced from outside state revenues and donations, which among others are sourced first, domestic financing, and secondly, foreign financing.

In the dual budgeting system, routine expenditure is intended as government expenditures allocated to finance routine government activities, which consist of:

- Employee Expenditure,
- Goods Expenditure,
- Debt Interest Payments,
- Subsidies,
- Other Routine Expenditure.

Meanwhile, development expenditures are state expenditures allocated to finance development projects which are charged to the central government budget in the context of implementing national development targets, both physical and non-physical. In this case, development expenditure consists of:

- Development Expenditure In The Form Of Rupiah Financing, The Funding Of Which Comes From Domestic And Foreign Sources In The Form Of Loans Program,
- Development Expenditure In The Form Of Project Financing, Where Funding Comes From Abroad In The Form Of Project Loans.

Furthermore, as mandated by Law No.17 of 2003, the budgeting system refers to practices that apply internationally. According to the GFS (Government Financial Statistics) Manual 2001, the state expenditure budgeting system implicitly uses a unified budget system, where there is no separation between routine expenditure and development, so the classification according to the economy will be different from the previous classification. In this case, state spending according to economic classification is grouped into first, compensation for employees; second, the use of goods and services; third, compensation from fixed capital in relation to the cost of production carried out by the government organizational unit; fourth, debt interest; fifth, subsidies; sixth, donations; seventh, social benefits; and eighth, other expenses in the context of transfers in the form of money or goods, and purchases of goods and services from third parties to be sent to other units.

In implementing changes to the format and structure of the state expenditure, it has been made by adjusting, but still referring to the GFS Manual 2001 and Law No. 17 of 2003. Some important notes relating to changes and adjustments to the format and structure of the new state expenditure among other:

First, in the format and structure of the new I-account, state expenditure is still separated from central government expenditure and regional expenditure, because the expenditure items for the regions that are currently applicable cannot be classified into one of the state expenditure posts as regulated in Law No. 17 of 2003;

Second, all state expenditures in the form of assistance / subsidies in the new format and structure are classified as subsidies; and

Third, all state expenditures which so far 'contain' other names that are scattered in almost all state expenditure items, in the new format and structure are classified as other expenditures.

With these changes and adjustments, state spending according to economic classification (type of expenditure) consists of:

- Employee Expenditure,
- Goods Expenditure,
- Capital Expenditure,
- Debt Interest Payments,
- Subsidies,
- Donations,
- Social Assistance,
- Other Expenditure.

While spending on the region, as it has been applied so far consists of:

- Balance Funds,
- Special Autonomy Funds And Adjustments.

With the change in format and structure of state expenditure according to type of expenditure, there will automatically be no longer a separation between routine expenditure and development expenditure (unified budget).

Some basic understanding of the important components in the expenditure, among others;

- Employee expenditure accommodates all state expenditures used to pay employee salaries, including various benefits that are due, and pay honorariums, overtime, vacations, special allowances and employee transit expenditure, as well as paying pensions and health insurance (social contributions). This classification also includes salary / wage expenditure for projects that have been classified as development expenditure. With this format, you will see overlapping items between employee expenditure classified as routine and development. This is where the efficiency will be achieved later. Likewise, spending on goods that should be used to finance government operational activities for the procurement of goods and services, and the cost of maintaining state assets. Likewise, the opposite is often classified as development expenditure.
- Capital expenditure accommodates all state expenditure allocated for the purchase of investment needs (in the form of fixed assets and other assets). Capital expenditure items are detailed in (i) capital expenditure for fixed / physical assets, and (ii) capital expenditure for other / non-physical assets. In practice so far, the majority of other non-physical expenditure consists of personnel expenditure, interest and travel that are not directly related to investment for development.

Subsidies accommodate all state expenditure allocated to pay the burden of subsidies on certain vital and strategic commodities that dominate the lives of many people, in order to maintain price stability so that it is affordable for most groups of people. The subsidies are allocated through state and private companies. Meanwhile, as long as there is a type of subsidy that actually has no subsidy element, then the expenditure will be classified as social assistance. Social assistance accommodates all state expenditure allocated as a transfer of money / goods given to the people, in order to protect against the possibility of social risks, for example transfers for payment of social compensation funds.

Meanwhile, regional expenditure accommodates all central government expenditure allocated to the regions, the utilization of which is left entirely to the regions.

2.6. Framework of Thinking

Based on the objective in the study of State Finance policies in accordance with Law No. 17 of 2003 this study will produce a review of changes in the budgeting system and the impact on a working unit(satker) organizations in connection with the implementation of Law No.17 of 2003.

To obtain input on the budgeting system and its impact on a working unit organization in connection with the implementation of Law no. 17 of 2003 interviews are conducted with officials and experts who are competent in the field of state finance. The study starts with an understanding of the goals and objectives to be achieved, then analyzes the studies that have been done before in relation to the budgeting system, as well as other policies relating to financial and budgeting policies, and then identifies several problems or impacts of a state finances policies in accordance with Law No.17 of 2003. For more details, the framework of thinking can be seen below:

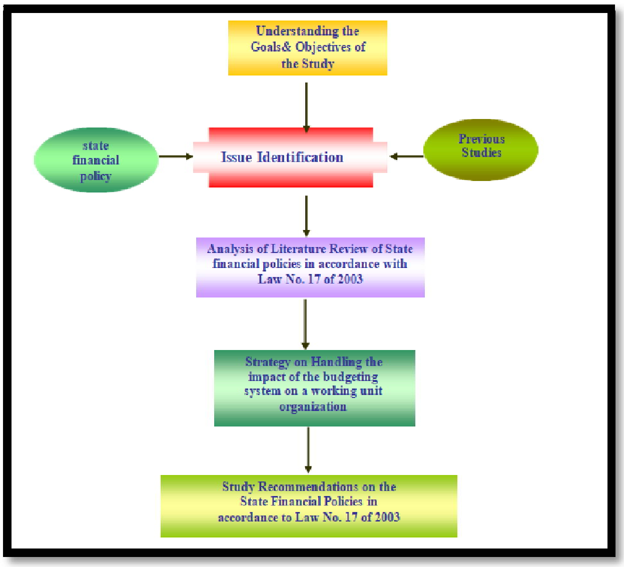

Figure 1: Framework of Thinking on the State Financial Policystudy in Accordance with Law No. 17 Of 2003

3. Approach and Methodology

This study was conducted through a qualitative methodology using primary and secondary data. Qualitative studies are carried out through literature studies, to understand and study the concepts of policies in general and policies regarding finance specifically. In this matter, a deeper review on the Law Number 17 of 2003 regarding State Finance and its implementation nationally in the budgeting system and its impact on a working unit/office organization. Literature study is also conducted to process and analyze secondary data related to this study.

To strengthen the basis of analysis and decision making, primary data collection was carried out through interviews with several competent officials in the field of state finance in relation to the substance of this study.

From the results of the literature study and the results of subsequent interviews they were processed and analyzed in order to compile some recommendations regarding the policy of Law No.17 of 2003.

3.1. Data Type and Collection

Types of data used in the study of state financial policies in accordance to Law No.17 of 2003, those are:

3.1.1. Primary Data

Primary data is data collected from the first hand and processed by organizations or individuals. This data is directly related to the object of study.

3.1.2. Secondary Data

Secondary Data is data obtained by an organization or individual from other parties that have collected and processed it. So the researchers only utilize existing data.

The data collection methods used are as follows:

3.1.3. Interview

Interview is a way to acquire information by asking to respondents directly. (Singarimbun and Sofian: 1982) While Mohammad Nazir (1988) defines interview as a process of conversation in the form of direct question and answer, interview is a process of collecting data for a research.

Interview as a process of interaction between researchers and informants has an important role in qualitative research. For this reason, interview techniques are conducted not with a strict structure, but rather loosely, by asking open-ended questions to acquire complete and in-depth information. This leeway allows the informant to be able to provide answers freely and truthfully. According to Paton (1983), this kind of interview can also be referred to as in-dept interviewing or the long interview in Mc. Crachen version (1988).

The purpose of the interview is to obtain input from experts or officials who are competent in the field of state finance relating to the substance of the study and various matters related to the research focus.

3.1.4. Documentation

Documentation is searching for data regarding matters or variables in the form of notes, transcripts, books, newspapers, magazines, minutes of meetings, ledger, agendas and so on (Arikonto: 1992).

Both methods of data collection are used to obtain data or information regarding the impact of changes in the budgeting system and a working unit organization in connection with the implementation of Law No.17 of 2003.

3.2. Data Analysis Technique

The data obtained both primary and secondary will be analyzed as follows:

First, an analysis of the theory and concept of State Finance policy in general and state finance in accordance with Law No.17 of 2003 specifically. In addition, a review and study of other laws relating to state financial policies was also carried out.
The legislation study will focus on the implementation of state financial policies in accordance with Law No.17 of 2003, particularly their impact on work unit / office organizations. Literature study is also conducted to process and analyze secondary data related to this study.
Secondly, the results of the literature study and the results of the field survey will be further processed and analyzed in order to develop several alternative policies that are considered feasible to be implemented in relation to changes in Law No. 17 of 2003.

3.3. System Policy of Budgeting Preparation and Development Planning

Policy on Ministry / Institution Budgetary Preparation System. Quite a fundamental change in the use of the government budget and its ranks determined by Law Number 17 of 2003 regarding State Finance. With the enactment of this law there is known a performance-based budgeting system, which is a budgeting system that must be prepared on the basis of:

- Functions / activities to be carried out by each work unit / Ministry / Institution, this means that each budget allocation must be oriented to the program functions / activities to be carried out by the Ministry / Institution (budget follow functions).
- Preparation of a performance-based budgeting system (performance budgeting system), this is an update in the government budget planning system, because any allocated budget expenditures must be accounted for by the performance achievements of program activities shown through achieved output and outcome.
- Prepared by a forward estimation (progress estimate). The forward forecast in this regard is that the preparation of the planned program activities to be carried out and the necessary budget, are arranged in a series of forecasts for the next two years.

National Development Planning System Policy as a follow-up to the changes in the government budget planning system as mentioned above, Law Number 25 of 2004 regarding the National Development Planning System was established. The substance of these laws and regulations is the National Development Planning policy which mandates that the Work Plans of each Ministry / Institution and Local Government (RKKL and RKPD) be prepared based on the Strategic Plan (Renstra) of each Ministry / Institution. Furthermore, it was also stated that the Ministry / Agency of Strategic Plan contained the vision, mission, objective, strategies, policies, programs and development activities in accordance with the duties and functions of the Ministries / Institutions which were prepared based on the National RPJM and were indicative in nature. Then it was restated that the Leaders of Ministries / Institutions prepared the K/L Work Plan draft in accordance with their main tasks and functions with reference to the initial RKP draft and guided by the K/L Strategic Plan. Therefore this regulation mandates that each Ministry / Institution must prepare a Medium-Term Development Plan (five years) in the Ministries / Institution Strategic Plan document or K/L Strategic Plan based on the National RPJM, which then becomes a guideline for each Ministry/Institution to prepare The work plan (annually).

4. Reform of State Financial Management through the Implementation of the Unified Budgeting System

In managing the state management, the government has carried out significant reforms related to changes in the dual budgeting system to a unified budgeting system. The Dual Budgeting System that has been known so far is in the form of separation between routine expenditure and development expenditure. The integrated budgeting is the preparation of an annual financial plan that is carried out in an integrated manner for all types of expenditure in order to carry out government activities with the principle of efficient allocation of fund (Abhimanyu, 2006).
Not only in the planning cycle, reforms in the state finance sector also have a positive impact on the third cycle of the APBN, that is the implementation of the budget. The minister/head of the institution/head of the regional work unit as the user of the budget carries out accounting for financial transactions, assets, debt, and equity funds, including income and expenditure transactions that are within their responsibility (Abhimanyu, 2006).
Integrated Budget According to PP 21/2004

- Definition: 'An integrated annual financial plan for all types of expenditure based on the principle of achieving efficient allocation of funds'.
- Cohesiveness occurs by integrating planning and budget within a ministry through a work plan/budget document and through the integration of routine and development budgets.
- The budget that will be integrated, arranged according to classification: (a) Ministries/Institutions; (b) Program; (c) Activities; (d) Type of Expenditures; and (e) Function'

MTEF / Forward Forecast According to Law No. 17 of 2003

- Article 13 states the Government must submit a macroeconomic framework and fiscal policy to the Parliament in May for the next fiscal year (as part of the government's annual work plan).
- According to article 13 macro / fiscal discussion between the Government/Parliament in May will produce a reference for the Ministry/Agency to prepare a budget
- According to article 14 the budgetary organizational units prepare a work plan and annual budget with forecasts for the following year
- Although Law No. 17 of 2003 does not regulate the preparation of the MTEF/Forward Forecast in detail, but Article 14 mandates that the preparation of a budget/work plan will be governed by a government regulation

Performance Based Budgeting and Management Objective and Performance Based Budgeting:

- The overall objective is to increase accountability and management
- Better allocation of resources is supported by complete information on the efficiency and effectiveness of expenditure
- Better expenditure effectiveness - resources are allocated to the highest priorities - the program is managed in such a way as to achieve its objectives - so the expected results can be achieved
- Better expenditure efficiency - lowest unit output cost - Efficiently established expenditure - minimize wasted expenses/increase on impact

Organizational Levels in Budgeting and Preparation begin at the lowest level, the work unit, and then proceed with incorporation at a higher level:

- Lowest level of work unit (Work Unit).
- Various Echelon in a Ministry and other organizations that have budgets
- The entire Ministries/Institutions
- The entire Central Government

Strengths and Weaknesses of Law No.17 of 2003 in Management of State Finances

The change was made because in the budgeting process that has been in force all this time it is considered to have several weaknesses, among others:

- Lack of integration between policy, planning, budgeting and implementation.
- Budgeting that has a one-year horizon.
- Budgeting based on inputs.
- Separation between routine budgeting and development budgets.

On the other hand, the planning and budgeting process of the new APBN in its implementation still contains several problems and shortcomings, that is:

- The ranks of the government, especially the Ministry of Finance involved and the DPR Budget Committee practically work for most of the year, from March to October, to discuss and approve the APBN. The governance bureaucracy mechanism at the executive level and the hearing schedule and order in the DPR are often not in line.
- Second, the DPR's approval of the State Budget to the types of expenditure, organization and function is well-intentioned and ideal for budget discipline. However, it is often difficult for both parties because the depth of the material and an urgency often requires compromises.
- The dependency of the executive as the budget planner and implementer with the legislature as the holder of the budget control becomes very high, thereby reducing executive flexibility in fiscal policy.
- Third, on the part of the executive, especially budget users' departments and institutions that are not yet familiar with budget discipline, tend to be resistant to systems that require high accountability. As a result, delays in disbursements occur and the development program is sacrificed.
- Fourth, delays also occur because there are still overlapping cases in the work of preparing and verifying DIPA and RKAKL at the Directorate General of Budget and Fiscal Balance (DJAPK) and the Directorate General of Treasury (DJPb) Ministry of Finance. However, it is hoped that this will not happen again in 2006.

In the budget planning stage, the reforms carried out were changes in the budget of the dual budgeting system (DBS) to the unified budgeting system (UBS). DBS which has been known so far is in the form of separation between routine expenditure and development expenditure. The UBS (integrated budgeting) is the preparation of an annual financial plan that is carried out in an integrated manner for all types of expenditure in order to carry out government activities with the principle of efficient allocation of funds.

In addition to changes in the planning cycle, reforms in the field of state finance also have a positive impact on the third cycle of the state budget, that is the implementation of the budget. The minister/institution head/head of the regional apparatus working unit as the user of the budget carries out accounting for financial transactions, assets, debts and equity funds, including income and expenditure transactions that are under their responsibility.

4.1. Law No. 17 of 2003 and Corruption, Collusion, and Nepotism Handling Efforts

With the enactment of Law No. 17 of 2003 regarding State Finance, Law No. 1 of 2004 regarding the State Treasury, and Law No. 14 of 2004 regarding the Examination of the Management of State Financial Responsibility, the government has taken steps in structuring the management of government finances comprehensively, including restructuring the internal control system (SPI) within the government.

The implementation of the three Laws means there is a strict separation between the budgeting and treasury functions; and budget user functions; financial statements prepared based on Government Accounting Standards through the implementation of a reliable accounting system; and the role and scope of duties of the government internal auditor are reorganized.

The implementation of reform performance in the field of budgeting is part of an effort to increase transparency and accountability in the management of state finances. Thus, this is expected to reduce the level of state financial leakage. The results cannot be felt right now, just the opposite. What happens is the amount of resistance. Many activities are late even stagnant because the procedures are very strict. Supervision is also layered. It is so multi-layered and cautious that it is not uncommon for one DIPA document to be verified before disbursing funds. Now also often heard complaints of reluctance to become the leader of the work unit because the responsibility is enormous, and the risk is also great.

On the other hand, the space to 'play' is also increasingly narrow. Budget power also seems to broaden into the hands of the legislature. Engineering occurred in the tender issue. Many budget disbursement matters are carried out by negotiation.

All of these are discussions that have developed in the budgeting process. Budgeting reform in planning and budgeting aims to overcome the problems of corruption, collusion and nepotism (KKN) which have been institutionalized for years.

The principle mechanism and procedures for planning and budgeting are available. This improvement will take quite a long time. The key is in standardizing the systems and behavior of those involved to adhere to the principle and if we are consistent, the results will be visible soon.

5. Conclusion

With the enactment of Law No. 17/2003 on State Finances, Law No. 1/2004 on State Treasury, and Law No 14/2004 concerning Examination of Management of State Financial Responsibility, the government has taken steps to restructure government financial management comprehensively, including restructuring the internal control system (SPI) within the government. The implementation of the three Laws means there is a strict separation between the budgeting and treasury functions; and budget user functions; financial statements prepared based on Government Accounting Standards through the implementation of a reliable accounting system; and the role and scope of duties of the government internal auditor are reorganized.

The implementation of reform performance in the field of budgeting is part of efforts to increase transparency and accountability in the management of state finances. Thus, this is expected to reduce the level of leakage of state finances. As mandated by Law No.17 of 2003, the budgeting system refers to practices that apply internationally. According to the GFS (Government Financial Statistics) Manual 2001, the state expenditure budgeting system implicitly uses a unified budget system, where there is no separation between routine expenditure and development, so the economic classification will be different from the previous classification.

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