

LAW OF THE REPUBLIC OF INDONESIA
NUMBER 17 OF 2003
ON
STATE FINANCE

BY THE BLESSINGS OF ALMIGHTY GOD

PRESIDENT OF THE REPUBLIC OF INDONESIA,

- Considering :
- a. that administering the state government to realize the state objectives has produced the rights and obligations of the state that may be appraised by money;
 - b. that management of the state rights and obligations as referred to in point a has been regulated in the Chapter VIII of the 1945 Constitution;
 - c. that Article 23C of Chapter VIII of the 1945 Constitution has mandated other matters concerning the state finance as regulated by the law;
 - d. that based on the considerations as referred to in point a, point b, and point c, it is necessary to establish a Law on State Finance;

Observing : Article 4, Article 5 section (1), Article 11 section (2), Article 17, Article 18, Article 18A, Article 20, Article 20A, Article 21, Article 22D, Article 23, Article 23A, Article 23B, Article 23C, Article 23D, Article 23E, and Article 33 section (2), section (3) and section (4) of the 1945 Constitution as amended by the Fourth Amendment to the 1945 Constitution;

With the Approval of
THE HOUSE OF REPRESENTATIVES OF
THE REPUBLIC OF INDONESIA

HAS DECIDED:

To enact: LAW ON STATE FINANCE.

CHAPTER I
GENERAL PROVISIONS

Article 1

In this Law:

1. State Finance means all state rights and obligations that can be valued with money, all things in the form of money or properties that can be considered owned by the state in

relation to the implementation of the aforementioned rights and obligations.

2. Government means the central government and/or local governments.
3. House of Representatives (*Dewan Perwakilan Rakyat*), hereinafter abbreviated as DPR, means the House of Representatives as referred to in the 1945 Constitution of the Republic of Indonesia.
4. Regional House of Representatives (*Dewan Perwakilan Rakyat Daerah*), hereinafter referred to as DPRD, means the Provincial House of Representatives, Regency House of Representatives, and Municipal House of Representatives as referred to in the 1945 Constitution of the Republic of Indonesia.
5. State Enterprise means an enterprise in which all or a part of its equity owned by the Central Government.
6. Local Enterprise means an enterprise in which all or a part of its equity owned by the Local Government.
7. State Budget (*Anggaran Pendapatan dan Belanja Negara*) hereinafter referred to as APBN means the annual financial plan of state government approved by the House of Representatives.
8. Local Budget (*Anggaran Pendapatan dan Belanja Daerah*) hereinafter referred to as APBD means the annual financial plan of the Local Government approved by the Regional House of Representatives.
9. State Income means money inflow into the state cash.
10. State Expenditure means money outflow from the state cash.
11. Local Income means money inflow into the regional cash.
12. Local Expense means money outflow from the local cash.
13. State Revenue means the Central Government's rights acknowledged as the increase of net worth.
14. State Expenditure means the Central Government's obligations acknowledged as the decrease of the net worth.
15. Local Revenue means the Local Government's rights acknowledged as the increase of the net worth.
16. Local Expenditure means the Local Government's obligations acknowledged as the decrease of the net worth.
17. Financing means each income that needs to be repaid and/or expense that will be re-gained, both in the current budget year and in the next budget years.

Article 2

State Finance as referred to in Article 1 section 1, covers:

- a. state right to impose tax, to expense and circulate money, and to make loan;
- b. state obligation to administer public service duties of the state government and to pay the third party's claim;
- c. State Income;
- d. State Expense;
- e. Local Income;
- f. Local Expense;
- g. state assets/local assets which are managed by itself or other parties in the form of money, securities, receivable, goods, as well as other rights, which may be appraised by

- money including of restricted assets at the state enterprises/local enterprises;
- h. assets of other parties, which are controlled by the government in administering the government duty and/or public interest;
 - i. assets of other parties, which are obtained by using the facility provided by the government.

Article 3

- (1) State Finance is managed orderly, by complying with the legislation, efficiently, economically, effectively, transparently, and accountably by considering fairness and appropriacy.
- (2) APBN, APBN revision, and accountability report of APBN for each year are stipulated by law.
- (3) APBD, APBD revision, and accountability report of APBD for each year are stipulated by Regional Regulation.
- (4) APBN/APBD has function of authorization, planning, supervision, allocation, distribution, and stabilization.
- (5) All incomes, which become the rights and expenses of the state obligation in the current budget year must be included in APBN.
- (6) All incomes, which become the rights and expenses of the regional obligation in the current budget year must be included in APBD.
- (7) State/regional income surplus may be spent to finance the state/regional expenses of the next budget year.
- (8) The use of state/regional income surplus as referred to in section (7) to make reserve funds or participation to the state/regional enterprises must obtain prior approval from DPR/DPRD.

Article 4

Budget year covers the period of one year starting from 1 January to 31 December.

Article 5

- (1) Currency used in preparation, stipulation and accountability of APBN/APBD is in Rupiah.
- (2) The use of other currencies in the implementation of APBN/APBD is regulated by the Minister of Finance in accordance with the prevailing legislation.

CHAPTER II

POWER ON THE STATE FINANCIAL MANAGEMENT

Article 6

- (1) President as the Head of Government holds the power for the state financial management as a part of the government power.
- (2) The power as referred to in section (1):
 - a. is mandated to the Minister of Finance as the fiscal management and Government Representative in the ownership of restricted state assets.
 - b. is mandated to the ministers/institution leaders as

Budget Users/Asset Users of the state ministries/institutions under their supervision.

- c. is delegated to the governors/regents/mayors as the head of local governments to manage the local finance and to represent the local governments in the ownership of the restricted local assets.
- d. is not including the authority in the field of monetary, covering among other to expend and circulate money as regulated by law.

Article 7

- (1) The power on the state financial management is exercised to achieve the state objectives.
- (2) APBN and APBD are prepared annually in order to administering the government function to achieve the state objectives as referred to in section (1).

Article 8

In exercising the power of the fiscal management, the Minister of Finance has the following duties:

- a. to prepare fiscal policy and macro economic framework;
- b. to prepare draft APBN and draft APBN revision;
- c. to validate budget implementation documents;
- d. to enter into international agreement in the field of finance;
- e. to conduct collection of the state revenues, which have been stipulated by law;
- f. to carry out the state general treasury function;
- g. to prepare financial report constituting as APBN accountability;
- h. to carry out other duties in the field of fiscal management based on the provisions of legislation.

Article 9

Ministers/institution leaders as Budget Users/Asset Users of the state ministries/institutions led by them have the duties as follows:

- a. to prepare the draft of state ministries/institutions budgets;
- b. to prepare budget implementation documents;
- c. to carry out the budget of state ministries/institutions;
- d. to conduct collection of non-tax state revenues and to deposit them into the State Cash;
- e. to manage state receivables and debts as the responsibility of the state ministries/institutions;
- f. to manage state properties/assets, which become the responsibility of the state ministries/institutions;
- g. to prepare and submit financial report of the state ministries/institutions;
- h. to conduct other duties which become the responsibility based on the provisions of legislation.

Article 10

- (1) The financial management power of the Local Government as referred to in Article 6 section (2) point c:
 - a. is carried out by the working unit heads of the local financial management as APBD management officials;

- b. is carried out by the working unit heads of the regional apparatuses as the local budget/asset user officials;
- (2) In the Local Financial Management, the Local Financial Management Officials has the duties as follows:
- a. to prepare and carry out APBD management policy;
 - b. to prepare draft APBD and draft APBD revision;
 - c. to conduct collection of the local revenues, which have been stipulated by the Regional Regulation;
 - d. to carry out the local general treasury function;
 - e. to prepare the financial report constituting as the APBD accountability.
- (3) Working unit heads of the regional apparatuses as the local budget/asset user officials have the duties as follows:
- a. to prepare working unit budget of the regional apparatuses;
 - b. to prepare budget implementation documents;
 - c. to carry out working unit budget of the regional apparatuses;
 - d. to conduct non-tax revenues imposition;
 - e. to manage the local debts and receivables, which become the responsibility of regional apparatus working units;
 - f. to manage local properties/assets which become the responsibility of the regional apparatus working units;
 - g. to prepare and submit the financial report of the regional apparatus working units.

CHAPTER III PREPARING AND STIPULATING APBN

Article 11

- (1) APBN is a realization of the state financial management stipulated each year in a law.
- (2) APBN consists of revenue budget, expenditure budget, and financing.
- (3) State revenues consist of tax revenues, non-tax revenues, and grant.
- (4) State expenditure is spent for the purpose of administering central government duties and the implementation of fiscal balance between the central government and local governments.
- (5) State expenditure is detailed according to the organization, function and type of expenditures.

Article 12

- (1) APBN is prepared in accordance with the needs of administering state government and capability in collecting state revenues.
- (2) Draft APBN as referred to in section (1) is prepared based on the government working plan in achieving the state objectives.
- (3) In the event that budget is estimated deficit, the financial sources are stipulated to cover such deficit in the Law on APBN.
- (4) In the event that budget is estimated surplus, the Central

Government may submit budget surplus allocation plan to the House of Representatives.

Article 13

- (1) The Central Government submits fiscal policy principles and macro economic framework for the next budget year to the House of Representatives at the latest by the mid-May in the current year.
- (2) The Central Government and the House of Representatives discuss the macro economic framework and fiscal policy principles submitted by the Central Government in the preliminary discussion of draft APBN of the next budget year.
- (3) Based on the macro economic framework and the fiscal policy principles, the Central Government and the House of Representatives discuss the general policy and budget priority to be a reference for each state ministry/institution in preparing budget proposal.

Article 14

- (1) In preparing draft APBN, the ministers/institution leaders as the budget users/asset users prepare working plan and budget of the state ministries/institutions for the next year.
- (2) Working plan and budget as referred to in section (1) is prepared based on the targeted work performance.
- (3) Working plan and budget as referred to in section (1) is attached by expenditure estimation for the next year after the budget year being prepared.
- (4) Working plan and budget as referred to in section (1) is submitted to the House of Representatives to be discussed in the preliminary discussion of draft APBN.
- (5) Working plan and budget discussion result is submitted to the Minister of Finance as the materials for preparing a draft law on APBN for the next year.
- (6) Further provisions regarding preparation of working plan and budget of the state ministries/institutions are regulated by a Government Regulation.

Article 15

- (1) The Central Government submits a Draft Law on APBN, attached by the financial note and supporting documents to the House of Representatives in August of the previous year.
- (2) The discussion of the Draft Law on APBN is conducted in accordance with the law regulating the structure and status of the House of Representatives.
- (3) The House of Representatives may submit the proposal that results in the revision to the total income and expense in the Draft Law on APBN.
- (4) Decision-making by the House of Representatives concerning the Draft Law on APBN is conducted at the latest 2 (two) months before the budget year is implemented.
- (5) APBN that has been approved by DPR is in detail up to the organization units, functions, programs, activities and types of expenditure.
- (6) If the House of Representatives does not approve the Draft Law as referred to in section (1), Central Government may

spend the maximum budget as much as APBN figure for the previous budget year.

CHAPTER IV PREPARING AND STIPULATING APBD

Article 16

- (1) APBD is a realization of the local financial management stipulated each year in a Regional Regulation.
- (2) APBD consists of revenue budget, expenditure budget and financing.
- (3) Local revenue originates from the local own-source revenue, balance funds and other legal revenues.
- (4) Local expenditure is detailed according to the organization, function and type of expenditures.

Article 17

- (1) APBD is prepared in accordance with the needs of the administratering of local government and capability of local revenues.
- (2) Draft APBD as referred to in section (1) is prepared based on the Local Government working plan in achieving the state objectives.
- (3) In the event of budget is estimated deficit, the financial sources are stipulated to cover such deficit in the Regional Regulation on APBD.
- (4) In the event that budget is estimated surplus, the surplus allocation is stipulated in the Regional Regulation on APBD.

Article 18

- (1) Local Governments submit general policy of APBD for the next budget year in line with the Working Plan of Local Government as the basis of preparing Draft APBD (RAPBD) to DPRD at the latest by the mid-of June in the current year.
- (2) DPRD discusses the general policy of APBD submitted by the Local Governments in the preliminary discussion of RAPBD of the next budget year.
- (3) Based on the general policy of APBD that has been agreed with DPRD, the Local Government and the Regional House of Representatives discuss the budget priority and budget ceiling of the temporary budget to be a reference for each Working Unit of Regional Apparatus.

Article 19

- (1) In preparing RAPBD, the Working Unit Heads of Regional Apparatuses as the budget users prepare working plan and budget of the Working Units of Regional Apparatus for the next year.
- (2) Working plan of Working Units of Regional Apparatuses is prepared based on the targeted work performance.
- (3) Working plan and budget as referred to in section (1) is attached by expenditure estimation for the next year after the budget year being prepared.

- (4) Working plan and budget as referred to in section (1) is submitted to DPRD to be discussed in the preliminary discussion of RAPBD.
- (5) Working plan and budget discussion result is submitted to local financial management officials as the materials for preparing Draft Regional Regulation on APBD for the next year.
- (6) Further provisions regarding preparation of working plan and budget of the Working Units of Regional Apparatus are regulated by a Regional Regulation.

Article 20

- (1) Local Government submits a Draft Regional Regulation on APBD, attached by explanation and supporting documents to DPRD on the first week of October in the previous year.
- (2) The discussion on a Draft Regional Regulation on APBD is conducted in accordance with the law regulating the structure and status of DPRD.
- (3) DPRD may submit the proposal that results in the revision to the total income and expense in the Draft Regional Regulation on APBD.
- (4) Decision-making by DPRD concerning the Draft Regional Regulation on APBD is conducted at the latest one month before the budget year is implemented.
- (5) APBD that has been approved by DPRD is in detail up to the organization units, functions, programs, activities and types of expenditure.
- (6) If DPRD does not approve the Draft Regional Regulation as referred to in section (1), to finance the monthly needs of Local Government, Local Government may spend the maximum budget as much as APBD figure for the previous budget year.

CHAPTER V

FINANCIAL RELATIONS BETWEEN CENTRAL GOVERNMENT AND CENTRAL BANK, LOCAL GOVERNMENT AS WELL AS FOREIGN GOVERNMENTS/INSTITUTIONS

Article 21

Central Government and central bank conduct coordination in the stipulation and implementation of fiscal and monetary policies.

Article 22

- (1) Central Government allocates the balance fund to the Local Governments based on the central and regional financial balance law.
- (2) The Central Government may give loan and/or grant to the Local Governments or vice versa.
- (3) Giving loan and/or grant as referred to in section (2) is conducted after obtaining the approval of the House of Representatives.
- (4) Local Governments may give loan to/receive the loan from other regions under the approval of DPRD.

Article 23

- (1) The Central Government may give grant/loan to or receive grant/loan from foreign governments/institutions under the approval of DPR.
- (2) The loan and/or grant received by the Central Government as referred to in section (1) may be re-lent to Local Governments/State-owned Enterprises/Local-owned Enterprises.

CHAPTER VI
FINANCIAL RELATIONS BETWEEN GOVERNMENT AND
STATE-OWNED ENTERPRISES, LOCAL-OWNED
ENTERPRISES, PRIVATE-OWNED ENTERPRISES AND
PUBLIC FUND MANAGEMENT AGENCY

Article 24

- (1) The Government may give loan/grant/equity participation to and receive loan/grant from state-owned/local-owned enterprises.
- (2) Giving loan/grant/equity participation and receipt of loan/grant as referred to in section (1) previously are stipulated in APBN/APBD.
- (3) The Minister of Finance guides and supervises the state-enterprises.
- (4) Governor/regent/mayor guides and supervises the local enterprises.
- (5) Central Government may sell and/or privatize state enterprises after obtaining approval from DPR.
- (6) Local Government may sell and/or privatize the local enterprises after obtaining the approval of DPRD.
- (7) In certain condition to save national economy, the Central Government may give loan and/or conduct equity participation to private enterprises after obtaining approval from DPR.

Article 25

- (1) The Minister of Finance guide and supervise public fund management agency obtaining the facilities from the Central Government.
- (2) The governor/regent/mayor guide and supervise public fund management agency obtaining facilities from the Local Governments.
- (3) The provisions as referred to in Article 3 section (1) are effective for public fund management agency obtaining facilities from the government.

CHAPTER VII
IMPLEMENTATION OF APBN AND APBD

Article 26

- (1) After APBN has been stipulated by a law, its implementation is further regulated by a Presidential Decree.
- (2) After APBD has been stipulated by the regional regulations, its implementation is further regulated by Decision of Governor/ Regent/ Mayor.

Article 27

- (1) The Central Government prepares the Statement of APBN Realization for First Semester and prognosis for next 6 (six) months.
- (2) The statement as referred to in section (1) is submitted to DPR at the latest at the end of July of the current budget year, to be jointly discussed between DPR and Central Government.
- (3) APBN adjustment to the development and/or revisions of the condition is discussed jointly between DPR and Central Government in preparing the estimate of the revision to APBN for the current budget year if:
 - a. macro-economic development is not appropriate anymore to the assumption made in APBN;
 - b. there are changes of fiscal policy principles;
 - c. there are conditions causing the budget shifting among organization unit, inter-activity and inter-expenditure type;
 - d. there are conditions causing the accumulated budget surplus of the previous year must be spent for the current year budget financing.
- (4) In emergency condition, the Government may conduct expense of which its budget has not been available, that is further proposed in a draft APBN revision and/or submitted in the Statement of Budget Realization.
- (5) The Central Government submits draft law on the revision of APBN for the current year based on the revision as referred to in section (3) for obtaining approval of DPR before the end of current budget year.

Article 28

- (1) The Local Government prepares the Statement of APBD Realization for First Semester and prognosis for next 6 (six) months.
- (2) The statement as referred to in section (1) is submitted to DPRD at the latest at the end of July of the current budget year, to be jointly discussed between DPRD and Local Government.
- (3) APBD adjustment to the development and/or revisions of the condition is discussed jointly between DPRD and Local Government in preparing the estimation of the Revision on APBD for the current budget year if:
 - a. there is inappropriate development with the assumption of general policy of APBD;
 - b. there are conditions causing the budget shifting among organization unit, inter-activity and inter-expenditure type;
 - c. there are conditions causing the accumulated budget surplus of the previous year must be spent for the current year budget financing.
- (4) In emergency condition, the Local Government may conduct expense of which its budget has not been available, that is further proposed in a draft APBD revision and/or submitted in the Statement of Budget Realization.

- (5) The Local Government submits Draft Regional Regulation on the revision of APBD for the current year based on the revision as referred to in section (3) for obtaining approval of DPRD before the end of current budget year.

Article 29

The provisions regarding state financial management in implementing APBN and APBD are stipulated in the law regulating the state treasury.

CHAPTER VIII ACCOUNTABILITY OF APBN AND APBD IMPLEMENTATION

Article 30

- (1) The President submits a draft law on accountability of APBN implementation to DPR in the form of financial statement which has been audited by the Audit Board at the latest 6 (six) months after the end of the budget year.
- (2) The financial statement at least covers the Statement of APBN Realization APBN, Balance Sheet, Cash Flow Statement and the Notes to Financial Statement, which are attached by the financial statement of the state enterprises and other agencies.

Article 31

- (1) The Governor/Regent/Mayor submits draft regional regulation on accountability of APBD implementation to DPRD in the form of financial statement which has been audited by the Audit Board at the latest 6 (six) months after the end of the budget year.
- (2) The financial statement at least covers the Statement of APBD Realization, Balance Sheet, Cash Flow Statement and Notes to Financial Statement, which are attached by the financial statement of the local enterprises.

Article 32

- (1) The form and content of the accountability report on APBN/APBD implementation as referred to in Article 30 and Article 31 are prepared and presented in accordance with the government accounting standards.
- (2) The government accounting standards as referred to in section (1) are prepared by an independent standard committee and stipulated by the Government Regulation after previously obtaining consideration from the Audit Board.

Article 33

The audit of state financial management and accountability is regulated by a separated law.

CHAPTER IX
CRIMINAL PROVISIONS, ADMINISTRATIVE SANCTIONS AND
COMPENSATION

Article 34

- (1) The Minister/Institution Heads/Governors/Regents/Mayors who are proven against policies which have been stipulated in the law on APBN/Regional Regulations on APBD are subject to imprisonment and fine in accordance with the provisions of law.
- (2) The organizational unit leaders of State Ministries/Institutions /Working Units of Regional Apparatuses who are proven fail to comply with budget activities which have been stipulated in the law on APBN/Regional Regulation on APBD are subject to imprisonment and fine in accordance with the provisions of law.
- (3) The President imposes administrative sanction in accordance with the provisions of law to the civil servants as well as other parties who fail to meet the obligation as determined in this law.

Article 35

- (1) Each state official and civil servant of non-treasurer violating the law and neglecting the obligation both directly and indirectly inflicting the state finance is obligated to compensate the loss.
- (2) Any person given the duties to receive, keep, pay and/or transfer the money or securities or state assets is a treasurer who is obligated to submit the accountability report to the Audit Board.
- (3) Any treasurer as referred to in section (2) is personally responsible for the state financial loss occurred under their management.
- (4) The provisions regarding the settlement for state loss are regulated in the law on the state treasury.

CHAPTER X
TRANSITIONAL PROVISION

Article 36

- (1) The provisions regarding recognition and measurement of accrual-based revenue and expenditure as referred to in Article 1 point 13, 14, 15, and 16 of this law are carried out at the latest within 5 (five) years. As long as the recognition and measurement of the accrual-based revenue and expenditure have not been carried out, the cash basis recognition and measurement are applied.
- (2) The time limit for submitting financial statement by the Central Government/ Local Government as well as completing the audit on the financial statement of the Central Government/Local Government by the Audit Board as referred to in Article 30 and Article 31 are effective for APBN/APBD of 2006.

CHAPTER XI
CLOSING PROVISION

Article 37

At the time this law comes into force:

- (1) *Indische Comptabiliteitswet* (ICW), *Staatsblad* of 1925 Number 448 as amended several times, last by Law Number 9 of 1968 (State Gazette of the Republic of Indonesia of 1968 Number 53, Supplement to the State Gazette Number 2860);
- (2) *Indische Bedrijvenwet* (IBW) *Stbl.* of 1927 Number 419 jo. *Stbl.* 1936 Number 445;
- (3) *Reglement voor het Administratief Beheer* (RAB) *Stbl.* 1933 Number 381; insofar as regulated in this law, are declared ineffective anymore.

Article 38

The implementing provisions as a follow-up of this law must have been completed at the latest 1 (one) year as of its promulgation of this law.

Article 39

This law comes into force on the date of its promulgation.

In order that every person know hereof, it is ordered to promulgate this Law by its placement in the State Gazette of the Republic of Indonesia.

Enacted in Jakarta
on 5 April 2003

PRESIDENT OF THE REPUBLIC OF
INDONESIA,

signed

MEGAWATI SOEKARNOPUTRI

Promulgated in Jakarta
on 5 April 2003

STATE SECRETARY
OF THE REPUBLIC OF INDONESIA,

signed

BAMBANG KESOWO

STATE GAZETTE OF THE REPUBLIC OF INDONESIA OF 2003 NUMBER 47

Jakarta, 17 October 2023

Has been translated as an Official Translation
on behalf of Minister of Law and Human Rights
of the Republic of Indonesia

DIRECTOR GENERAL OF LEGISLATION,



ASEP N. MULYANA

ELUCIDATION
OF
LAW OF THE REPUBLIC OF INDONESIA
NUMBER 17 OF 2003
ON
STATE FINANCE

I. GENERAL

1. Background

In achieving the state objectives as stated in paragraph IV of the Preamble of the 1945 Constitution, a state government administering the government function in various fields has been established. The establishment of the state government concerned has produced the rights and obligations of the state, which can be appraised by money, which require to be managed in the state financial management system.

As a sovereign state, law state, and state administering state government under the constitution, the state financial management system must conform to the basic regulation stipulated in the Constitution. In the Chapter VIII on Finance of the 1945 Constitution, it is mentioned that the state budget is stipulated each year by a law, and provisions concerning the tax and other levies of compelling characters for the purposes of the state as well as the denomination and value of currency are regulated by a law. Other matters concerning the state finance in accordance with the mandate of Article 23C are regulated by a law.

By this time, the implementation of the state financial management still applies the provisions of the law prepared at the colonialism era of Netherlands which is effective based on the Transitional Provisions of the 1945 Constitution namely *Indische Comptabiliteitswet* known by the name ICW Stbl. 1925 No. 448, further amended and promulgated in the State Gazette of 1954 Number 6, 1955 Number 49, and last by Law Number 9 of 1968 which was enacted for the first time in 1864 and came into force in 1867, *Indische Bednjenwet* (IBW) Stbl. 1927 No. 419 *jo. Stbl.* 1936 No. 445 and Reglement voor het Administratief Beheer (RAB) Stbl. 1933 No. 381. Meanwhile, the implementation of the accountability audit of state finance applies *Instructie en verdere bepalingen voor de Algemeene Rekenkamer* (IAR) Stbl. 1933 No. 320. Those legislation concerned is unable to accommodate various developments occurred in the state institution system and the government financial management of the Republic of Indonesia. Therefore, although various provisions concerned formally remain in effect, some of the provisions in the law have not been implemented anymore.

The shortcomings of law in the field of state finance become one of the factors on the occurrence of several types of non-compliance with the state financial management. In the effort to eliminate the non-compliance and to achieve the sustainable fiscal management system in accordance with the main provisions which have been stipulated in the Constitution and the general principles which are universally effective in administering the state government, it is necessary to establish a law regulating the state financial management.

The effort to prepare a law regulating the state financial management has been initiated since the establishment of Indonesia. Therefore, the completion of Law on State Finance is the continuation and the result of various efforts, which have been conducted all this time fulfilling the constitutional obligation, as mandated by the 1945 Constitution.

2. New Matters and/or Fundamental Changes in the Provisions of State Financial Management Regulated in this Law.

The new matters and fundamental changes in the state financial provisions which are regulated in this law covers the definition and scope of the state finance, general principles of the state financial management, the status of the President as the holder of the state financial management power, delegating the power of the President to the Minister of Finance and the Minister/Institution Leader, structure of APBN and APBD, the provisions concerning preparing and stipulating APBN and APBD, regulation on the financial relations between central government and central bank, local government and the foreign government/institution, regulation of the financial relations between the government and the state enterprises, local enterprises and private enterprises and the public fund management agency, as well as the determining the form and time limit for submitting the accountability report of APBN and APBD implementation.

This law has anticipated the change of the accounting standard within the governments in Indonesia, which is referred to the development of the international accounting standard within the government.

3. Definition and Scope of State Finance

The approach used in formulating the State Finance is from the object, subject, process and objective perspectives. From the object perspective, the State Finance covers all rights and obligations of the state which can be appraised by money, including the policy and activity in the field of fiscal, monetary and restricted state assets management, as well as everything both in the form of money and goods which may become the state assets in relation with the implementation of the rights and obligations. From the subject perspective, the State Finance covers all objects as mentioned above which are owned by the state, and/or controlled by the Central Government, Local Governments, State/Local Enterprises, and other agencies related to the state finance. From the process perspective, the State Finance covers all series of activities related to the object management as mentioned above starting from preparing the policy and taking decision up to the accountability. From the objective perspective, the State Finance covers all policies, activities and legal relations related to the ownership and/or possession of the object as mentioned above in administering state government.

The broad field of State Financial management can be classified into the sub-field of fiscal management, sub-field of monetary management and sub-field of restricted state assets management.

4. General Principles of State Financial Management

In supporting the realization of good governance in administering the state, the state financial management requires to be organized professionally, transparently and accountably in accordance with the main provisions which have been stipulated in the Constitution. As mandated in Article 23C of the 1945 Constitution, Law on State Finance requires to describe the main provisions which have been stipulated in the Constitution concerned into the general principles covering the principles which have been known in the state financial management such as annual principle, universality principle, unity principle, and specialty principle as well as the new principle as the reflection of best practices in the state financial management, among others:

- result-oriented accountability;
- professionalism;
- proportionality;
- transparency in the state financial management;
- financial audit by the free and independent audit board.

Those general principles are also required to guarantee the administration of the local government principle as formulated in Chapter VI of the 1945 Constitution. By applying those general principles in the Law on State Finance, the implementation of this Law is not only a reference for reforming state financial management, but also aims to strengthen the foundation for implementing decentralization and regional autonomy in the Unitary State of the Republic of Indonesia.

5. Power on State Financial Management

The President as the Head of Government holds the power on state financial management as a part of the government power. The power covers the general authority and special authority. To assist the President in exercising the power, some of the power are mandated to the Minister of Finance as the Fiscal Management and the Government Representative in the state financial ownership of restricted state assets, as well as to the Ministers/Institution Leaders as the Budget Users/Asset Users of the state ministries/institutions. The Minister of Finance as the assistant of the President in the field of finance, principally is the Chief Financial Officer (CFO) of the Government of the Republic of Indonesia, meanwhile each Minister/Institution Leader is principally the Chief Operational Officer (COO) for a certain field of the government. This principle is required to be implemented consistently so that there are clarity/certainty in dividing the authority and responsibility, the implementation of checks and balances mechanism as well as to support the improvement of professionalism in administering the government duties.

The sub-field of fiscal management covers the function of fiscal policy management and the macro economic framework, budgeting, taxation administration, custom administration, treasury, and financial supervision.

In accordance with the decentralization principle in administering the state government, a part of the power of the President is mandated to the Governors/Regents/Mayors as the regional financial managements. Therefore, to reach the stability of Rupiah value, the duties to stipulate and carry out the monetary policy as well as to regulate and maintain the ease of the payment system are conducted by the central bank.

6. Preparing and Stipulating APBN and APBD

The provision concerning preparing and stipulating APBN and APBD in this law covers the affirmation of the objective and function of the government budgeting, affirmation of DPR/DPRD and the government role in the process of preparing and stipulating budget, integrating the performance accountability system in the budgeting system, completing the budget classification, integrating budget and applying the framework of medium term expenditure in preparing the budget.

Budget is accountability, management, and economic policy tool. As the instrument of the economic policy, budget serves to accomplish the growth and stability of economic as well as the even distribution of the revenue in achieving the state objective. In the effort to redefine the objective and function of the budget, it is necessary to regulate clearly the role of DPR/DPRD and the government in the process of preparing and stipulating the budget as the description of the main provisions which have been stipulated in the 1945 Constitution. Thus, this law mentions that the state expenditure/local expenditure is detailed up to the organization unit, function, program, activity and type of budget. It means that each budget shifting among organization unit, inter-activity and inter-expenditure type must obtain the approval of DPR/DPRD.

The role of the DPR/DPRD and the government in the process of preparing and determining the budget as an elaboration of the basic rules that have been stipulated in the 1945 Constitution. In this connection, in this law it is stated that state expenditure/regional expenditure is detailed down to organizational units, functions, programs, activities and types of shopping. This means that every budget shift between organizational units, between activities and between types of expenditure must obtain approval from the DPR/DPRD .

Another problem which is also important in the effort of improving the process of budgeting in public sector, is the application of the work performance-based budget. Considering that the work performance-/result-based budget system requires the criteria on performance control and evaluation as well as to avoid the duplication in preparing the working plan and budget of the state ministry/institution/regional apparatus, it is necessary to integrate the accountability system of the performance in the budgeting system by introducing the system for preparing working plan and budget of the state ministry/institution/regional apparatus. By preparing the working plan and budget of the ministry/institution/regional apparatus, the need for the budget on the work performance basis and the measurement of the performance accountability of the ministry/institution/regional apparatus can be made simultaneously.

In line with the effort to apply the on the performance-based budget at the public sector, it is also necessary to conduct the revision of budget classification in order to conform to the classification applied internationally. The revision in classification of government transaction aims to facilitate the implementation of the performance-based budget, to provide the objective and proportional description concerning the government activity, to maintain the consistency with accounting standard of the public sector as well as to facilitate the presentation and to improve the credibility of the government financial statistic.

All this time, the government budget is classified based on the routine budget and the development budget. The classification in the routine

budget and development budget which previously are purposed to emphasize the development importance, but in the implementation it arises the opportunities on the occurrence of the duplication, accumulation and deviation of the budget. Meanwhile, the elaboration of the development plan in the five yearly national planning developments, which have been stipulated by the law, is considered unrealistic and not appropriate with the flux of the government needs in the globalization era. The flux development in administering government requires the fiscal planning system consisting of the annual budget preparing system carried out in accordance with the medium term expenditure framework as carried out in many developed countries.

Although the budget may be prepared well, if the process of the stipulation are delayed, it will be potential to arise problem in its implementation. Therefore, this law regulates clearly the mechanism of budget discussion in DPR/DPRD including the duties distribution between the budget committee and the working committee of the state ministry/ institution/ regional apparatus in D PR/ DPRD .

7. Financial Relations between the Central Government and Central Bank, Local Governments, Foreign Governments/Institutions, State Enterprises, Local Enterprises, Private Enterprises as well as Public Fund Management Agency

In line with the broad and complicated state financial management activity, it is necessary to regulate the provisions concerning the financial relations between the government and the infra/ supranational institutions. The provisions covers financial relations between the central government and central bank, local governments, foreign governments, foreign agencies/institutions as well as the financial relations between the government and state enterprises, local enterprises, private enterprises and the public fund management agency. In the financial relations between the central government and central bank, it is affirmed that the central government and central bank coordinate in stipulating and implementation of the fiscal and monetary policies. In relations with the local government, this law affirms the obligations of the central government to allocate the balance fund to the local government. In addition, this law also regulates the receipt of government foreign loan. In relation between the government and the state enterprises, the local enterprises, private enterprises and public fund management agency is stipulated that the government may give loan/grant/equity participation to and receive the loan/grant from the state enterprises/local enterprises after obtaining approval from DPR/DPRD.

8. APBN and APBD Implementation

After APBN is stipulated in detail by the law, its implementation is further stated by the Presidential decree as the guideline for the state ministry/ institution in the implementation of the budget. The statement in the Presidential decree is particularly concerning any matters which have not been detailed in the law on APBN, such as budget allocation for head office and regional office of the state ministry/institution, salary payment in the personnel expenditures and the payment for the outstanding that become the expense of the state ministry/institution. In addition, such statement is to cover the balance fund allocation for the province/regency/city and allocation of subsidy in accordance with the needs of the receiving company/ agency.

In order to provide information concerning the progress of APBN/APBD implementation, the central government/ local government requires to submit the statement of realization of the first semester to DPR/DPRD at the end of July of the current budget year. Information stated in the statement becomes the evaluation materials of APBN/APBD implementation of the first semester and the adjustment/revisions of APBN/APBD in the following semester.

The provisions concerning state financial management in the APBN/APBD implementation are stipulated separately in a law regulating state treasury considering that they are more related to the inter-state ministry/institution administrative relations within government.

9. Accountability of State Financial Management

One of the concrete efforts to accomplish the transparency and accountability of the state financial management is the submission of the financial accountability report of the government that fulfilling the punctuality principles and prepared in compliance with the government accounting standards that is generally accepted.

In this law, it is stipulated that the accountability report of APBN/APBD implementation is submitted in the form of financial statement that at least contains the statement of budget realization, balance sheet, cash flow report and notes to financial statement prepared based on the government accounting standards. The central government financial statement which has been audited by the Audit Board must be submitted to DPR at the latest 6 (six) months after the end of the current budget year, and also the financial statement of the local government, which has been audited by the Audit Board must be submitted to DPRD at the latest 6 (six) months after the end of the current budget year.

In the frame of accountability of the state financial management, the minister/ institution leader/ governor/ regent/ mayor as budget/ asset user is responsible for the implementation of the policy stipulated in the Law on APBN/Regional Regulation on APBD, from the benefit/outcome. While the Leaders of the organization unit of the state ministry/ institution are responsible for the implementation of the activity stipulated in the Law on APBN, and the Head of Regional Apparatus Working Unit is responsible for the implementation of the activity stipulated in the Regional Regulation on APBD, from the goods and/or services to be provided (output). As the consequence, this law regulates a sanction that is imposed to the minister/institution leader/governor/ regent/mayor and the Leaders of organization unit of the state ministry/institution/Regional Apparatus Working Unit that is proven against the policy/activity which has been stipulated in a Law on APBN/Regional Regulation on APBD. The provisions on sanctions are aimed as the preventive and repressive effort, and serve as the guarantee on the compliance to the Law on APBN/Regional Regulation on APBD.

In addition to confirming the principles applied universally, that any person who is given authority to receive, keep and pay or transfer the state money, securities or assets is responsible personally for shortage occurred in his/her management. The obligation to compensate the state financial loss by the state financial managements constitutes the reliable internal control element.

II. ARTICLE BY ARTICLE

Article

Sufficiently clear

Article 2

Point a

Sufficiently clear

Point b

Sufficiently clear

Point c

Sufficiently clear

Point d

Sufficiently clear

Point e

Sufficiently clear

Point f

Sufficiently clear

Point g

Sufficiently clear

Point h

Sufficiently clear

Point i

Assets of other parties as referred to in point i cover the assets managed by other persons or agencies based on the government policy, foundations within the state ministries/institutions, or state/local enterprises.

Article 3

Section (1)

Each state administrator is obligated to manage the state finance orderly, by complying with legislation, efficiently, economically, effectively, transparently, and accountably by considering the fairness and appropriateness.

Management as referred to in this section covers all activities of planning, controlling, spending, supervising, and accountability.

Section (2)

Sufficiently clear

Section (3)

Sufficiently clear

Section (4)

Function of authorization means that the state budget becomes the basis for the implementation of the revenues and expenditures in the current year.

Function of planning means that the state budget becomes the basis for the management in planning the activities in the current year.

Function of supervision means that the state budget becomes the basis for evaluating whether the state administration is in accordance with the stipulated provisions.

Function of allocation means that the state budget must be directed to reduce unemployment and wasted resources as well as to increase efficiency and effectiveness of the economics.

Function of distribution means that the state budget policy must consider the fairness and appropriateness.

Function of stabilization means that the state budget becomes a tool to maintain and to achieve the fundamental economic equilibrium.

- Section (5)
Sufficiently clear
- Section (6)
Sufficiently clear
- Section (7)
Sufficiently clear
- Section (8)
Sufficiently clear

Article 4
Sufficiently clear

Article 5
Sufficiently clear

Article 6
Section (1)
The power for the state financial management as referred to in this section covers the general authority and special authority.
General authority covers the determination of direction, general policy, strategy and priority in APBN management, such as stipulating the guidelines of APBN implementation and accountability, stipulating working plan preparation guidelines of state ministry/institution, stipulating salary and allowance, and the guidelines of State Income management.
Special authority covers the technical decisions/policies related to the APBN management, such as the decision of cabinet session in the field of APBN management, the decision of APBN details, the decision of balance funds and writing off the state assets and receivable accounts.

Section (2)
Point a
Sufficiently clear

Point b
In this provision, the term "institution" means a state institution and non-ministerial government institution. Within the state institution, the term "institution leader" means the official who is responsible for the financial management of the institution.

Point c
Sufficiently clear

Point d
Sufficiently clear

Article 7
Sufficiently clear

Article 8

Sufficiently clear

Article 9

Point a

Sufficiently clear

Point b

Sufficiently clear

Point c

Sufficiently clear

Point d

Sufficiently clear

Point e

The receivables as referred to in this section is the state rights in the frame of non-tax state revenues of which its collection becomes the responsibility of the state ministry/institution.

The debts as referred to in this section is the state obligation to the third party in the frame of goods and service procurements of which its payment becomes the responsibility of the state ministry/institution as the user unit of the budget and/or other obligation rising based on the law/court judgment.

Point f

Sufficiently clear

Point g

Preparation and presentation of financial statement is in the frame of accountability and transparency in the state financial management, including the work performance achieved on the use of the budget.

Point h

Sufficiently clear

Article 10

Section (1)

Sufficiently clear

Section (2)

Point a

Sufficiently clear

Point b

Sufficiently clear

Point c

Sufficiently clear

Point d

Sufficiently clear

Point e

Sufficiently clear

Section (3)

Point a

Sufficiently clear

Point b

Sufficiently clear

Point c

Sufficiently clear

Point d

Sufficiently clear

Point e

Sufficiently clear

Point f

Sufficiently clear

Point g

Preparation and presentation of financial statement is in the frame of accountability and transparency in the regional financial management, including the work performance achieved on the use of the budget.

Article 11

Section (1)

Sufficiently clear

Section (2)

Sufficiently clear

Section (3)

The taxation imposition includes the import duty and excises.

Section (4)

Sufficiently clear

Section (5)

State expenditure detail according to the organization is adjusted to the structure of state ministry/central government institution.

State expenditure detail according to the function among other consists of the public services, defense, order and security, economics, life environment, housing and public facility, health, tourism, culture, religion, education and social protection.

State expenditure detail according to the type of expenditure (economic characteristics) among other consists of the personnel expenditures, goods expenditures, capital expenditures, interest, subsidy, grant, social assistance and other expenditures.

Article 12

Section (1)

In preparing the relevant APBN, it is endeavored that the operational expenditures cannot exceed the revenue in the relevant budget year.

Section (2)

Sufficiently clear

Section (3)

The budget deficit is limited for a maximum of 3% of the Gross Domestic Product. The total loan is limited for a maximum of 60% of the Gross Domestic Product.

Section (4)

Budget surplus allocation is required to consider the accountability principles inter generation, so that its allocation is prioritized for the debt reduction, reserve forming and social security increase.

Article 13

Sufficiently clear

Article 14

Sufficiently clear

Article 15

Section (1)

Sufficiently clear

Section (2)

Sufficiently clear

Section (3)

Revision of the Draft Law on APBN may be proposed by DPR as long as it does not increase budget deficit.

Section (4)

Sufficiently clear

Section (5)

Sufficiently clear

Section (6)

Sufficiently clear

Article 16

Section (1)

Sufficiently clear

Section (2)

Sufficiently clear

Section (3)

Sufficiently clear

Section (4)

Detailed local expenditure according to the organization is adjusted to the structure of regional apparatus/regional technical institution.

Detailed local expenditure according to the function among other consists of the general services, order and security, economics, environment, housing and public facility, health, tourism, culture, religion, education, and social protection.

Detailed local expenditure according to the type of expenditure (economic characteristics) among other consists of the personnel expenditures, goods expenditures, capital expenditures, interest, subsidy, grant, and social assistance.

Article 17

Section (1)

In preparing the APBD, it is endeavored that the operational expenditures cannot exceed the in revenue in the relevant budget year.

Section (2)

Sufficiently clear

Section (3)

The budget deficit is limited for a maximum of 3% of the Gross Regional Product of the area. The Total loan is limited for a maximum of 60% of the Gross Regional Product of the area.

Section (4)

Budget surplus allocation requires to consider the accountability principles inter generation, so that its allocation is prioritized for the debt reduction, reserve forming and social security increase.

Article 18

Sufficiently clear

Article 19

Sufficiently clear

Article 20

Section (1)

Sufficiently clear

Section (2)

Sufficiently clear

Section (3)

Revision of the Draft Regional Regulations on APBD may be proposed by DPRD as long as it does not increase budget deficit.

Section (4)

Sufficiently clear

Section (5)

Sufficiently clear

Section (6)

Sufficiently clear

Article 21

Sufficiently clear

Article 22

Section (1)

Sufficiently clear

Section (2)

The Government is obligated to submit the copy of each loan agreement and/or grant which have been signed to the Audit Board.

Section (3)

Sufficiently clear

Section (4)

Sufficiently clear

Article 23

Section (1)

Sufficiently clear

Section (2)

The Government is obligated to submit the copy of each loan agreement and/or grant which have been signed to the Audit Board.

Article 24

Section (1)

The Government is obligated to submit the copy of each loan agreement and/or grant which have been signed to the Audit Board.

- Section (2)
Sufficiently clear
- Section (3)
Sufficiently clear
- Section (4)
Sufficiently clear
- Section (5)
Sufficiently clear
- Section (6)
Sufficiently clear
- Section (7)
Sufficiently clear

Article 25

- Section (1)
The term "public fund management agency" in this section does not include the financial service company which has been regulated in the separated regulations.
- Section (2)
Sufficiently clear
- Section (3)
Sufficiently clear

Article 26

- Sufficiently clear

Article 27

- Section (1)
Sufficiently clear
- Section (2)
Sufficiently clear
- Section (3)
Sufficiently clear
- Section (4)
The expense in this section includes the expenditure for emergency purposes of which its criteria are stipulated in Law on APBN.
- Section (5)
Sufficiently clear

Article 28

- Section (1)
Sufficiently clear
- Section (2)
Sufficiently clear
- Section (3)
Sufficiently clear
- Section (4)
The expense in this section includes the expenditure for emergency purposes of which its criteria are stipulated in Regional Regulations on APBD.
- Section (5)
Sufficiently clear

Article 29

Sufficiently clear

Article 30

Section (1)

Audit by the Audit Board is completed at the latest 2 (two) months after receiving the financial statement from the Central Government.

Section (2)

Beside presenting the realization of revenues and expenditures, the Statement of Budget Realization also explains the work performance of each state ministry/institution.

Article 31

Section (1)

Auditing the financial report by the Audit Board shall be completed at the latest 2 (two) months as of receiving the financial report from the Local Government.

Section (2)

The report of Budget Realization besides presents the realization of the income and expenditures, it also explains the work performance of working unit of the regional apparatus.

Article 32

Section (1)

Sufficiently clear

Section (2)

The Audit Board is considered have fully agreed on the government accounting standards submitted by the Government if within the period of 2 (two) months it does not give the consideration as requested.

Article 33

Sufficiently clear

Article 34

Section (1)

The policy as referred to in this section is reflected at the benefit/outcome which must be achieved by the implementation of the function and program of the state ministries/institutions/local governments.

Section (2)

Sufficiently clear

Section (3)

Sufficiently clear

Article 35

Sufficiently clear

Article 36

Sufficiently clear

Article 37

Sufficiently clear

Article 38

The legislation related to the implementation of this Law must have been completed at the latest 1 (one) year. Its implementation commences from the enactment of this Law and must have been completed within 2 (two) years.

Article 39

Sufficiently clear

SUPPLEMENT TO THE STATE GAZETTE OF THE REPUBLIC OF INDONESIA
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