PRESIDENT OF THE REPUBLIC OF INDONESIA

LAW OF THE REPUBLIC OF INDONESIA
NUMBER 17 OF 2003

ON
STATE FINANCES

BY THE GRACE OF THE GOD ALMIGHTY

PRESIDENT OF THE REPUBLIC OF INDONESIA,

Considering:

a. whereas the administration of the state to realize the goal of state determines rights and obligations that can be valued in money;
b. whereas the management of the rights and obligations referred to in paragraph a has been set out in Chapter VIII of the 1945 Constitution;
c. whereas Article 23C of Chapter VIII of the 1945 Constitution mandates other matters concerning state finances governed by law;
d. Based on the considerations referred to in paragraphs a, b and c, it requires to establish the Law on State Finances;

In view of Article 4, Article 5 paragraph (1), Article 11 paragraph (2), Article 17, Article 18, Article 18A, Section 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 of the 1945 Constitution;

with the Joint Approval

OF THE HOUSE OF REPRESENTATIVES OF THE REPUBLIC OF INDONESIA

BE IT HEREBY RESOLVED:

To enact: LAW ON STATE FINANCES

CHAPTER I
GENERAL PROVISIONS
In this Law, some terminologies shall be defined as follow:
1. State finances are all rights and obligations of state that can be valued in money, as well as everything in cash or in the form of goods that can be owned by the state in connection with the implementation of the rights and obligations.
2. Government is the central government and/or local governments.
3. The House of Representatives is hereinafter referred to as the House is the House of Representatives as defined in the 1945 Constitution.
4. The Legislative Council, hereinafter referred to as the Council is the Provincial Legislative Council, the Regency Legislative Council, and the District Legislative Council as stipulated in the 1945 Constitution.
5. State enterprise is a business entity that is wholly or partly owned by the central government.
6. Local Company is a business entity that wholly or partly owned by the local government.
7. State Budget Revenues and Expenditures, hereinafter referred to as the State Budget, is the annual financial plan of the state government that is approved by the House of Representatives.
8. Regional Budget Revenues and Expenditures, hereinafter referred to as the Regional Budget, is the annual financial plan of the local government that is approved by the Legislative Council.
9. State revenues are money that go to the state treasury.
10. State expenditures are money that come out of the state treasury.
11. Regional revenues are money that go to the regional treasury.
12. Regional expenditures are money that come out of the regional treasury.
13. State revenues are the rights of the central government recognized as an increase to net asset.
14. State expenditures are the obligations of the central government recognized as a reduction to net asset.
15. Regional revenues are the rights of the local governments recognized as an increase to net asset.
16. Regional expenditures are the obligations of the local governments recognized as a reduction to net asset.
17. Financing is any revenue that needs to be paid back and/or expenditures that will be received again, either in the relevant fiscal year or the next fiscal years.

State Finances as referred to in Article 1 paragraph 1, include:
a. rights of the state to levy taxes, issue and circulate money, and make loans;
b. obligations of the state to organize public service tasks of the state government and pay bills of third parties;
c. State Revenues;
d. State expenditures;
e. Regional revenues;
f. Regional expenditures;
g. state/regional assets managed on its own or by other parties in the form of cash, securities, receivables, goods and other rights that can be valued in money, including assets separated on state enterprise/local company;
h. assets of other parties controlled by the government in the course of duties of government and/or public interest;
i. assets of other parties obtained using facilities provided by the government.

Article 3
(1) State Finances are managed orderly, and are obedient to laws and regulations, efficient, economical, effective, transparent and accountable with respect to the sense of justice and propriety.
(2) the State Budget, the state budget amendment and the accountability of the budget implementation each year is set by law.
(3) the Regional Budget, the regional budget amendment, and the accountability of the budget implementation each year is set by the regional regulation.
(4) the State Budget/Regional Budget has the function of authorization, planning, supervision, allocation, distribution and stabilization.
(5) All revenues that become rights of the state and expenditures that become obligations of the state in the fiscal year concerned shall be included in the State Budget.
(6) All revenues that become rights of the local government and expenditures that become obligations of the local government in the fiscal year concerned shall be included in the Regional Budget.
(7) State/regional revenues surplus can be used to finance state/regional expenditures next fiscal year.
(8) The use of state/regional revenues surplus referred to in paragraph (7) to establish a reserve fund or its investment in the State Enterprise/Local Company must obtain prior approval from the House of Representatives/Legislative Council.

Article 4
Fiscal year includes a period of one year, starting from January 1 to December 31.

Article 5
(1) The calculation unit in the preparation, determination and accountability of the State Budget/Regional Budget is Rupiah.
(2) The use of other currencies in the implementation of the State Budget/Regional Budget governed by the Minister of Finance is in accordance with the provisions of the applicable legislation.

CHAPTER II
POWER OVER THE STATE FINANCIAL MANAGEMENT
Article 6

(1) The President as the Head of Government holds the power of the financial state management as part of the power of the government.

(2) The power referred to in paragraph (1) includes:
   a. authorized to the Minister of Finance as the fiscal manager and the Representative of the Government in the ownership of separated state assets;
   b. authorized to the ministers/head of institutions as the Budget Users/Items Users of the ministries/institutions they lead;
   c. submitted to the governors/regents/mayors as the head of local government to manage local finances and represent local government in the ownership of separated regional assets.
   d. not included in the field of monetary authority, which includes, among others, to issue and circulate money, which is regulated by law.

Article 7

(1) The power over state financial management is used to achieve the state objectives.

(2) In order to organize the functions of the state government to achieve the state objectives referred to in paragraph (1) are prepared annually State and Regional Budgets.

Article 8

In order to implement the power over fiscal management, the Minister of Finance has the following tasks:

a) to formulate the fiscal policy and macroeconomic framework;

b) to draft the State Budget and the State Budget Amendment;

c) to approve the budget execution documents;

d) to conduct international agreements in the field of finance;

e) to implement the state revenues collection that have been established by law;

f) to carry out the functions of the state treasurer;

g) to prepare the financial statement which is the accountability of the State Budget implementation;

h) to perform other tasks in the areas of fiscal management under the provisions of law.

Article 9

The ministers/head of institutions as the Budget Users/Items Users of the ministries/institutions they lead have the following tasks:

a. to draft the ministries/institutions budget they lead;

b. to prepare documents for the implementation of the budget;

c. to implement te ministries/institutions budget they lead;

d. to implement the non-tax state revenues collection and deposit it into the State Treasury;
e. to manage receivables and liabilities that become the accountability of the ministries/institutions they lead;
f. to manage the state property/assets that become the accountability of ministries/institutions they lead;
g. to prepare and submit the financial statements of the ministries/institutions they lead;
h. to perform other tasks that become its accountability under the provisions of law.

Article 10

(1) The power of the financial management as referred to in Article 6 paragraph (2) letter c:
   a. is carried out by the head of Regional Financial Managing Work Units as the managing official of the Regional budget;
   b. is carried out by the head of regional work units as the official user of the Regional Budget/regional items.
(2) In order to manage the regional finances, the Regional Financial implementors have the following tasks:
   a. to formulate and implement the Regional Budget management policies;
   b. to draft the Regional Budget and the Regional Budget amendment;
   c. to implement regional revenues collection defined by Regional Regulation;
   d. to carry out the functions of local treasurer;
   e. to prepare the financial statement which is the accountability of the Regional Budget implementors.
(3) The head of the regional work units as the official user of the Regional Budget/regional items has the following tasks:
   a. to draft the budget of the regional work units he leads;
   b. to prepare documents for the implementation of the budget;
   c. to implement the budget of regional work units he leads;
   d. to implement the non-tax revenues collection;
   e. to manage the liabilities and the receiveables that become the accountability of the regional work units he leads;
   f. to manage the regional property/assets that become the accountability of the regional work units he leads;
   g. to prepare and submit the financial statement of the regional work units he leads.

CHAPTER III
THE PREPARATION AND DETERMINATION OF THE STATE BUDGET

Article 11

(1) The State Budget is the realization of state financial management set each year by law.
(2) The State Budget consists of revenues budget, expenditures budget and financing.
(3) State revenues consist of tax revenues, non-tax revenues and grants.
(4) State expenditures are used for the purposes of implementation of the central government tasks and the implementation of the financial balance between the central and the local governments.
(5) State expenditures are detailed by organization, function and type of expenditures.

Article 12

(1) The State Budget is prepared in accordance with the needs of the state administration and the ability to raise state revenues.
(2) The preparation of the draft of the State Budget referred to in paragraph (1) is based on the work plan of the Government in order to realize the achievement of the state objectives.
(3) In case the budget is estimated to be deficit, it shall be established the funding sources to cover the deficit in the Laws concerning the State Budget.
(4) In case the the budget is estimated to be surplus, the Central Government may submit the usage plan of the surplus budget to the House of Representatives.

Article 13

(1) The Central Government convey the main points of fiscal policy and macroeconomic framework in the next fiscal year to the House of Representatives no later than the mid-May of the current year.
(2) The Central Government and the House of Representatives discuss the macroeconomic framework and the main points of fiscal policy proposed by the Central Government in the preliminary talks of State Budget next fiscal year.
(3) Based on the macroeconomic framework and the main points of fiscal policy, the Central Government along with the House of Representatives discuss the general policy and the budget priorities as a reference for all ministries/institutions in the preparation of the budget proposal.

Article 14

(1) In order to prepare the draft of the State budget, the ministers/head of institutions as the budget users/items users prepare the work plan and the budget of the ministries/institutions next year.
(2) The work plan and the budget referred to in paragraph (1) is based on the work achievement that will be achieved.
(3) The work plan and the budget referred to in paragraph (1) is accompanied by the expenditures estimation for the following year after the fiscal year being prepared.
(4) The work plan and the budget referred to in paragraph (1) shall be submitted to the House of Representatives to be discussed in the preliminary talks of the draft of the State Budget.
(5) The discussion results of of the work plan and the budget submitted to the Minister of Finance as materials for preparing the Bill concerning the State Budget next year.
Further provisions regarding the preparation of the work plan and the budget of the ministries/institutions are regulated by the Government.

**Article 15**

1. The Central Government proposes the Bill concerning the State Budget, along with the financial memorandum and its supporting documents to the House of Representatives in August the previous year.
2. The discussion of Bill concerning the State Budget is done in accordance with the laws governing the structure and the position of the House of Representatives.
3. The House of Representatives may submit a proposal resulting in the change of the amount of revenues and expenditures in the Bill concerning the State Budget.
4. The decision by the House of Representatives regarding the Bill concerning the state budget is made no later than 2 (two) months prior to current the fiscal year.
5. The State Budget passed by the House is detailed up to the organizational units, functions, programs, activities and types of expenditure.
6. If the House of Representatives does not pass the Bill referred to in paragraph (1), the Central Government may make expenditures not exceed the previous fiscal year's State Budget figures.

**CHAPTER IV**

THE PREPARATION AND DETERMINATION OF THE REGIONAL BUDGET

**Article 16**

1. The Regional Budget is the realization of regional financial management set each year by regional regulation.
2. The Regional Budget consists of revenues budget, expenditures budget and financing.
3. Regional revenues consist of original regional revenues, balancing fund and financing.
4. Regional expenditures are detailed by organization, function and type of expenditures.

**Article 17**

1. The Regional Budget is prepared in accordance with the needs of the state administration and the ability of the regional revenues.
2. The preparation of the draft of the Regional Budget referred to in paragraph (1) is based on the work plan of the Local Government in order to realize the achievement of the state objectives.
3. In case the budget is estimated to be deficit, it shall be established the funding sources to cover the deficit in the Regional Regulations concerning the Regional Budget.
(4) In case the budget is estimated to be surplus, it shall be established the usage of the surplus budget in the Regional Regulations concerning the Regional Budget.

Article 18

(1) The Local Government convey the general policy of the Regional Budget next fiscal year in line with the Work Plan of the Local Government, as the base of the preparation of the Regional Budget Draft no later than the mid-June of the current year.

(2) The Legislative Council discusses the general policy of the Regional Budget proposed by the local government in the preliminary talks of the Regional Budget Draft next fiscal year.

(3) Based on the general policy of the Regional Budget that has been agreed with the Council, the Local Government along with the Legislative Council discusses the budget priorities and ceilings as a reference for any regional work units.

Article 19

(1) In order to prepare the draft of the Regional budget, the Head of the Regional Work Units as the budget users prepare the work plan and the budget of the Regional Work Units next year.

(2) The work plan and the Regional Work Units referred to in paragraph (1) is based on the work achievement that will be achieved.

(3) The work plan and the budget referred to in paragraph (1) is accompanied by the expenditures estimation for the following year after the fiscal year being prepared.

(4) The work plan and the budget referred to in paragraph (1) and (2) shall be submitted to the Legislative Council to be discussed in the preliminary talks of the draft of the Regional Budget.

(5) The discussion results of of the work plan and the budget submitted to the regional financial management officer as materials for preparing the Regional Regulation Draft concerning the Regional Budget next year.

(6) Further provisions regarding the preparation of the work plan and the budget of the Regional Work Units are regulated by the Regional Regulation.

Article 20

(1) The Local Government proposes the Regional Regulation Draft concerning the Regional Budget, along with the explanations and its supporting documents to the Legislative Council at the first week of October the previous year.

(2) The discussion of the Regional Regulation Draft concerning the Regional Budget is done in accordance with the laws governing the structure and the position of the Legislative Council.

(3) The Legislative Council may submit a proposal resulting in the change of the amount of revenues and expenditures in the Regional Regulation Draft concerning the Regional Budget.
(4) The decision by the Legislative Council regarding the Regional Regulation Draft concerning the Regional Budget is made no later one month prior to the current fiscal year.

(5) The Regional Budget passed by the Council is detailed up to the organizational units, functions, programs, activities and types of expenditure.

(6) If the Legislative Council does not pass the Regional Regulation Draft referred to in paragraph (1), to finance the monthly needs, the Local Government may make expenditures not exceed the previous fiscal year’s Regional Budget figures.

CHAPTER V

Article 21
The Central Government and the central bank coordinate the establishment and the implementation of the fiscal and monetary policy.

Article 22
(1) The Central Government allocates the balancing funds to local government under the laws of central/regional financial balance.

(2) The Central Government may provide loans and/or grants to local government or otherwise.

(3) The provision of loans and/or grants as referred to in paragraph (2) shall be conducted after the approval of the House of Representatives.

(4) The Local Government may give loans to/receive loans from other areas with the approval of the Council.

Article 23
(1) The Central Government will provide grants/loans to or receive grants/loans from the foreign government/institutions with the approval of the House.

(2) The loans and/or grants received by the Central Government referred to in paragraph (1) may be continuously lent to the Local Government/State Enterprise/Local Company.

CHAPTER VI

Article 24
The Government may provide loans/grants/capital shares and receive loans/grants from the state enterprise/local company.

The Provision of loans/grants/capital shares and the acceptance of loans/grants referred to in paragraph (1) shall be first set out in the State Budget/Regional Budget.

The Minister of Finance shall provide guidance and oversight to state enterprises.

Governors/regents/mayors shall provide guidance and oversight to Local companies.

The Central Government may conduct the sale and/or the privatization of state enterprises after the approval of the House.

The Local Government may conduct the sale and/or the privatization of local companies after the approval of Council.

In certain circumstances, to rescue the national economy, the Central Government may provide loans and/or capital shares to private companies after the approval of the House.

Article 25

(1) The Minister of Finance shall provide guidance and oversight to the managing institutions of public funds that receive facilities from the Central Government.

(2) Governors/Regents/Mayors shall provide guidance and oversight to managing institutions of public funds that receive facilities from the local government.

(3) The provision referred to in Article 3 paragraph (1) applies to the managing institutions of public funds that receive facilities from the government.

CHAPTER VII
THE IMPLEMENTATION OF STATE AND REGIONAL BUDGETS

Article 26

(1) After the budget is set by law, the implementation is presented further with the Presidential Decree.

(2) After the budget is set by regional regulations, the implementation is presented further with the Governors/Regents/Mayors Decree.

Article 27

(1) The Central Government prepares the Realization Report of the First Half of the State Budget and the prognosis for 6 (six) months.

(2) The report referred to in paragraph (1) shall be submitted to the House of Representatives no later than the end of July of the current fiscal year, to be discussed together between the House and the Central Government.

(3) The adjustment of the State Budget with the development and/or the changes in circumstances discussed together between the House and the Central Government in order to prepare the amendments estimation over the State Budget of the current fiscal year, in the event:
a. macroeconomic developments that are not in accordance with the assumptions used in the State Budget;
b. changes in the main fiscal policies;
c. circumstances which lead to a shift in the budget among the units of organization, the activities and the types of expenditures;
d. circumstances that lead to the previous surplus budget balance shall be used for financing the current budget.

(4) In case of emergency, the Government may make expenditures that the budgets have not yet been available, which are in turn proposed in the amendment draft of the State Budget and/or delivered in the Budget Realization Report.

(5) The Central Government submits the bills concerning the State Budget Amendment of the current fiscal year based on the amendment referred to in paragraph (3) to obtain the approval of the House of Representatives before the current fiscal year ends.

Article 28

(1) Local Government Realization Reports First Half preparing budgets and prognosis for 6 (six) months.

(2) The report referred to in paragraph (1) shall be submitted to the Council no later than the end of July of the budget is concerned, to be discussed jointly by the Parliament and Local Government.

(3) The adjustment of the Regional Budget with the development and/or the changes in circumstances discussed together between the Council and the Local Government in order to prepare the amendments estimation over the Regional Budget of the current fiscal year, in the event:
   a. the development is not in accordance with the general policy assumptions of the Regional Budget;
   b. circumstances which lead to a shift in the budget among the units of organization, the activities and the types of expenditures;
   c. circumstances that lead to the previous surplus budget balance shall be used for financing the current budget.

(4) In case of emergency, the Local Government may make expenditures that the budgets have not yet been available, which are in turn proposed in the amendment draft of the Regional Budget, and/or delivered in the Budget Realization Report.

(5) The Local Government submits the Regional Regulation Draft concerning the Regional Budget Amendment of the current fiscal year based on the amendment referred to in paragraph (3) to obtain the approval of the Council before the current fiscal year ends.

Article 29

Provisions concerning the state financial management in the implementation of the State and Regional Budgets are set out in the legislation governing the state treasury.
CHAPTER VIII
THE ACCOUNTABILITY OF THE STATE AND REGIONAL BUDGETS IMPLEMENTATION

Article 30

(1) The President submits the bills concerning the accountability of the State Budget implementation to the House in the form of financial statements that have been audited by the State Audit Board, no later than 6 (six) months after the fiscal year ends.

(2) The financial statements referred to at least include the State Budget Realization Report, the Balance Sheet, the Cash Flows Report and the Notes on the Financial Statements, which are attached with the financial statements of state enterprises and other entities.

Article 31

(1) Governors/Regents/Mayors submit the regional regulation draft concerning the accountability of the Regional Budget implementation to the Council in the form of financial statements that have been audited by the State Audit Board, no later than 6 (six) months after the fiscal year ends.

(2) The financial statements referred to at least include the Regional Budget Realization Report Balance Sheet, the Balance Sheet, the Cash Flows Report and the Notes on the Financial Statements, which are attached with the financial statements of the local company.

Article 32

(1) The form and the content of the accountability report of the State/Regional Budgets referred to in Article 30 and Article 31 are prepared and presented in accordance with the governmental accounting standards.

(2) The governmental accounting standards referred to in paragraph (1) shall be prepared by an independent committee standard and are established by Regional Regulations after first obtaining consideration of the State Audit Board.

Article 33

The examination of the state financial management and accountability is set in specific laws.

CHAPTER IX
PENAL PROVISIONS, ADMINISTRATIVE SANCTIONS AND INDEMNITY

Article 34

(1) Ministers/Head of the institutions/Governors/Regents/Mayors found guilty of irregularities over established policy in the laws concerning the State
Budget/Regional Regulations on the Regional Budget are punishable by imprisonment and fines in accordance with the provisions of the law.

(2) The heads of the Organizational Unit of Ministry/Institution/Regional Work Units found guilty of irregularities over budget activities specified in the laws on the State Budget/Regional Regulation on the Regional Budget are punishable by imprisonment and fines in accordance with the provisions of the law.

(3) The President may give administrative sanctions in accordance with the provisions of law to civil servants and other parties who do not fulfill their obligations as specified in this law.

Article 35

(1) Each state official and civil servant of non-treasurer who violates the law or neglects their duties either directly or indirectly harms the state finances is obliged to indemnify.

(2) Each person who is given the task of receiving, storing, paying, and/or delivering state’s cash or securities or goods is a treasurer who shall submit their accountability reports to the Audit Board.

(3) Each treasurer referred to in paragraph (2) is personally responsible for losses of the state finances under his/her management.

(4) The provisions regarding the settlement of the state losses are governed by law concerning the state treasury.

CHAPTER X
TRANSITIONAL PROVISIONS

Article 36

(1) The provisions on the recognition and measurement of accrual-based revenues and expenditures referred to in Article 1 number 13, 14, 15 and 16 of this law are implemented no later than 5 (five) years. As long as the recognition and measurement of the accrual-based revenues and expenditures have not been implemented, it is used the cash-based recognition and measurement.

(2) The deadline for submission of financial statements by the central government/local government, as well as the completion of the examination of financial statements of the central government/local government by the State Audit Board, as referred to in Article 30 and Article 31, apply from the State Budget/Regional Budget of 2006.

CHAPTER XI
CLOSING PROVISIONS

Article 37

At the time of enactment of this Act:

1. Indische Comptabiliteitswet (ICW), Staatsblad No. 448 of 1925 as amended several times, last by Law No. 9 of 1968 (the State Gazette of the Republic of Indonesia of 1968 No. 53, Supplement to the State Gazette No. 2860);
2. Indische Bedrijvenwet (IBW) Stbl. 1927 Number 419 jo. Stbl. 1936 No. 445;  
3. Reglement voor het Administratief Beheer (RAB) Stbl. 1933 No. 381;  
as long as being stipulated in this law, are no longer valid.

Article 38

The implementation provisions as the follow up of this law are completed no later than one (1) year since the law is enacted.

Article 39

This Law comes into force since the date of promulgation.

For the public cognizance, it is ordered to promulgate this Law by placing it in the State Gazette of the Republic of Indonesia.

Valid  
on April 5, 2003

Promulgated in Jakarta  
Promulgated in Jakarta  
on April 5, 2003

STATE SECRETARY  
OF THE REPUBLIC OF INDONESIA,  
signed.  
BAMBANG KESOWO

THE STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 47 OF 2003
I. GENERAL
1. Rationale

In order to achieve state objectives as stated in the fourth paragraph of the Preamble of the 1945 Constitution is established the state government carrying out government functions in a variety of fields. The formation of the state government determines rights and obligations that can be assessed with money that needs to be managed in a system of state financial management.

As a country with sovereignty of the people, under the law, and to govern the state government based on the constitution, the system of state financial management must comply with the basic rules established in the constitution. In the 1945 Constitution Chapter VIII Financial Matters, among others, noted that the revenue and expenditure budgets are set every year by laws, and the provisions on taxes and other levies coercive for the purposes of the state’s needs as well as the types and currency prices are set by laws. Other matters concerning state finances in accordance with the mandate of Article 23C is set by laws.

So far in the implementation of the state financial management still use provisions of law drafted during the Dutch colonial rule applicable under the Transitional Provisions of the 1945 constitution, i.e. Indische Comptabiliteitswet, better known as ICW Stbl. 1925 No. 448, subsequently amended and promulgated in the State Gazette Number 6 of 1954, Number 49 of 1955 and the last, the Law Number 9 of 1968, which was first established in 1864 and came into force in 1867, Indische Bedrijvenwet (IBW) Stbl. No. 1927 No. 419 jo. Stbl. No. 445 of 1936 and Reglement voor het Administratief Beheer (RAB) Stbl. No. 381 of 1933. Meanwhile, in the implementation of the state financial accountability examination is used Instructie verdere bepalingen en voor de Algemeene Rekenkamer (IAR) Stbl. No. 320 of 1933. The legislation can not accommodate the various developments in the system of state institutions and the state financial management of the Republic of Indonesia. Therefore, despite the various provisions will still apply formally, materially some of the provisions in the legislation is no longer implemented.

The weakness of legislation in the field of state finances becomes one of causes of some forms of irregularities in the state financial management. In an effort to eliminate the irregularities and to realize the sustainable fiscal management system in accordance with the basic rules set out in the
Constitution and the general principles that apply universally in the administration of state government is needed a law regulating the state financial management.

Efforts to draft legislation regulating the state financial management has been initiated since the inception of Indonesia. Therefore, the completion of Law on the State Finances is the continuation and the result of efforts that have been made so far, in order to meet constitutional obligations mandated by the 1945 Constitution.

2. New things and/or Fundamental Changes in the State Financial Management Policy set in this Law

New things and/or fundamental changes in the state financial provisions set out in this law include the definition and the scope of the state finances, general principles of the state financial management, the position of the President as the authorize holder of the state financial management, the delegation of powers of the President to the Minister of Finance and the Ministers/Head of Institutions, the arrangement of the State and Regional Budgets, the provisions regarding the preparation and the establishment of State and Regional Budgets, the arrangement of financial relationship between the central government and the central bank, the local government and foreign government/institutions, the arrangement of financial relationship between state enterprises, local companies and private companies and the managing body of public funds, as well as the determination of the form and the deadline of the delivery of the accountability report of the State and Regional Budgets implementation.

This law has also anticipated changes of accounting standards in Indonesia, which refers to the development of accounting standards in the government internationally.

3. The Definition and the Scope of State Finances

The approach used in formulating the State Finances is of the side of object, subject, process and purposes. Of the objects in question with the State Finances cover all rights and obligations of the state that can be valued in money, including the policies and activities in the areas of fiscal, monetary and management of separated state assets, as well as everything in cash, or in the form of goods that can be made into state's posession in connection with the implementation of those rights and obligations. Of the subjects referred to the State Finances include the entire objects as mentioned above owned by the state and/or controlled by the Central Government, Local Government, State Enterprises/Local Company and other entities that have anything to do with state finances. In terms of process, the State Finances cover all activities related to the management of the object as mentioned above, starting from the policy formulation and
decision-making up to accountability. In terms of purposes, the State Finances cover all policies, activities and relationships of law in connection with the ownership and/or control of the objects, as mentioned above in the context of state administration.

The area of the State Financial management is so large that it can be grouped into sub-areas of fiscal management, monetary management and separated management of state assets.

4. General Principles of the State Financial Management

In order to support the realization of good governance in the state administration, the state financial management should be carried out in a professional, open, and accountable manner in accordance with the basic rules set out in the Constitution. In accordance with the mandate of Article 23C of the 1945 Constitution, the Law on the State Finances need to describe the basic rules set out in the Constitution in general principles covering both the principles that have long been recognized in the state financial management, such as the annual principle, the universality principle, the unity principle and the specialty principle as well as new principles as the reflection of best practices (the application of good rules) in the state financial management, among others:

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

The general principles are also necessary in order to ensure the implementation of the local government principles as it has been formulated in Chapter VI of the 1945 Constitution. With the general principles espoused in the Law on State Finances, the implementation of this Constitution in addition to being a reference in the reform of the state financial management is also intended to strengthen the foundation of the implementation of decentralization and regional autonomy in the Republic of Indonesia.

5. The Power over the State Financial Management

The President as the Head of Government holds the power of the state financial management as part of the power of government. Such power includes general authorities and special authorities. To assist the President in the administration of the power, most of the power is delegated to the Minister of Finance as the Fiscal Organizer and the Representative of Government in possession of separated state assets, as well as to the Ministers/Head of Institutions as Budget Users/Items Users of the ministries/institutions they lead. The Minister of Finance as an assistant of
the President in the field of finance is essentially the Chief Financial Officer (CFO) of the Government of the Republic of Indonesia, while every minister/head of institutions is essentially the Chief Operational Officer (COO) for a particular area of government. This principle needs to be done consistently so that there is clarity in the division of authority and accountability, the implementation of checks and balances mechanism as well as to encourage efforts to increase professionalism in the implementation of government duties.

Sub-areas of fiscal management functions include fiscal policy management and macro-economic framework, budgeting, tax administration, customs administration, treasury and financial control.

In accordance with the principle of decentralization in the administration of state government, most presidential powers are handed over to Governors/Regents/Mayor as regional financial organizers. Similarly, to achieve stability in rupiah, the duty to formulate and implement monetary policy as well as to regulate and maintain the smooth operation of payment systems is done by central banks.

6. Preparing and Establishing State and Regional Budgets

The provisions regarding the preparation and the establishment of State/Regional budgets in this Law include affirmation of purposes and functions of government budgeting, affirmation of the role of the House/Council and the government in the process of preparation and establishment of the budget, performance accountability system integration in the system of budgeting, improvement of budget classification, budget pooling and the use of medium-term expenditure framework in the preparation of the budget.

A budget is a tool of accountability, management and economic policy. Budget as an instrument of economic policy serves to achieve economic growth and stability as well as income distribution in order to achieve the state objectives. In an effort to realign the objectives and functions of the budget needs to clearly set the role of the House/Council and the government in the process of preparation and establishment of the budget as the description of basic rules set out in the 1945 Constitution. Accordingly, in this law stated that the state expenditures/the regional expenditures are detailed up to organizational units, functions, programs, activities and types of expenditures. This means that any shift in the budget of organizational inter-unit, inter-activities and among the types expenditures must be approved by the House/Council.

Another important problem in the effort to improve the budgeting process in public sector is the implementation of performance-based budgeting. Given that performance/results-based budgeting system requires performance control and evaluation criteria as well as to avoid
duplication in the preparation of the work plan and the budget of ministries/institutions/regional work unit, it needs the unification of performance accountability system in the budgeting system by introducing a preparation system of the work plan and budgeting of ministries/institutions/regional work units. With the preparation of the work plan and the budget of the ministries/institutions/regional work units can be met as well as the need for performance-based budgeting and performance accountability measurement of the related ministries/instutions/regional work units.

In line with efforts to fully implement performance-based budgeting in the public sector, it is also necessary to amend the budget classification to fit the classification used internationally. Changes in government transactions groupings are intended to facilitate the implementation of performance-based budgeting, to provide an objective and proportionate regarding government activities, to maintain consistency with the public sector accounting standards, as well as to facilitate the presentation and to enhance the credibility of government finance statistics.

So far the government expenditures budgets are grouped on routine and development expenditures budgets. The grouping in the routine budget and the development expenditures budget which was originally intended to give emphasis on the importance of development, in practice has led to the possibility of duplication, stacking and irregularities of the budgets. Meanwhile, the pouring of development plan in a five-year national planning document set out by law is deemed to be unrealistic and inconsistent with the dynamics of the governance needs in the era of globalization.

Dynamic developments in governance require fiscal planning system which consists of an annual budgeting system implemented according to the Medium Term Expenditure Framework as implemented in most developed countries.

Although the budget can be prepared properly, if the establishment process is too late, it will potentially cause problems in the implementation. Therefore, the law is clearly regulated in a clear mechanism of budget discussion in the House/Council, including the division of tasks between the committee/budgeting commission and the committees of working partner in ministries/institutions/regional work units in the House/Council.

7. The financial relationship between the Central Government and the Central Bank, the Local Governments, Foreign Governments/Institutions, State Enterprises, Local Companies, Private Companies and Public Fund Managing Institutions
In line with the more extensive and complex state financial management activities, provisions need to be set on the relationship between the government and the infra/supranational institutions. Such provisions include the financial relationship between the central government and the central bank, the local governments, foreign governments, foreign agencies/institutions, as well as the financial relationships between the government and state enterprises, local companies, private companies and public fund managing institutions. In the financial relationship between the central government and the central bank is confirmed that the central government and the central bank coordinate in the establishment and the implementation of fiscal and monetary policy. In relation to the local governments, this law confirms the central government liabilities to allocate balancing funds to the local governments. In addition, this law regulates the admission of foreign loans. In the relationship between the government and state enterprises, local companies, private companies, and public fund managing institutions is established that the government can provide loans/grants/sharing investment to and receive loans/grants from state enterprises/local companies after the approval of the House/Council.

8. The implementation of State and Regional Budgets

After the State Budget is set out in detail by law, the further implementation is presented with the Presidential Decree as a guide for ministries/institutions in the implementation of budgets. The pouring in the Presidential Decree, especially regarding matters that have not been specified in the State Budget laws, such as the budget allocation for the central office and regional offices of ministries/institutions, payroll in personnel expenditures and payment for arrears borne by the state ministries/institutions. In addition, the pouring mentioned also includes the allocation of balancing funds to provinces/regecies/cities and the allocation of subsidy in accordance with the purposes of the company/entity that receives.

To provide information on the progress of the implementation of the State Budget/Regional Budget, the central government/local governments need to deliver the first semester report to the House/Council at the end of July of the current fiscal year. The information presented in the report can be evaluation matters of the implementation of the State Budget/Regional Budget of the first semester and the adjustments/amendment in the State Budget/Regional Budget of the next semester.

Provisions concerning the state financial management in order to implement the State Budget/Regional Budget are stipulated separately in laws governing the state treasury considering there are more concerning state administrative relationships among ministries/institutions within the government.
9. State Financial Management Accountability

One concrete effort to realize transparency and accountability in the state financial management accountability is the delivery of the state financial management that meets the on time principles and is prepared to follow the government accounting standards generally accepted.

In this law stipulated that the implementation of the accountability report of the State Budget/Regional Budget is presented in the form of financial statements which consist of at least the budget realization report, balance sheet, cash flow statement and notes to the financial statements prepared in accordance with the government accounting standards. The central government financial statements audited by the State Audit Board must be submitted to the House no later than six (6) months after the end of the current fiscal year, and so is the local government financial statements audited by the State Audit Board must be submitted to the Council no later than 6 (six) months after the end of the current fiscal year.

In the framework of the state financial management implementation, ministers/head of institutions/governors/regents/mayors as the budget users/items users will be responsible for the implementation of policies set out in the Laws concerning the State Budget/Regional Regulations concerning the Regional Budget, in terms of benefits/results (outcomes). Meanwhile, the head of ministerial organizational units/institutions are responsible for the implementation of the activities set out in the Laws concerning the State Budget, and so are the Head of the Regional Work Units are responsible for the implementation of activities set out in the Regional Regulations concerning the State Budget, in terms of goods and/or services provided (outputs). As the consequence, in this law is set sanctions that apply to ministers/head of institutions/governors/regents/mayors, as well as the head of ministerial organizational units/institutions/regional work units, proven to be committing irregularities of policies/activities that have been defined in the Laws concerning the State Budget/Regional Regulation concerning the Regional Budget. The sanctions provision are intended as a preventive and repressive efforts, as well as serve as security for compliance with the Laws concerning the State Budget/Regional Regulations concerning the Regional Budget.

In addition, it is necessary to emphasize the universal principles that apply to those who have been authorized to receive, store and pay or deliver cash, securities or state properties responsible personally for all the flaws that occurred in the management. The obligation to indemnify of the state finances by the state financial managers is an element of a reliable internal control.
II. ARTICLE BY ARTICLE

Article 1
Self-explanatory

Article 2
Letter a
Self-explanatory
Letter b
Self-explanatory
Letter c
Self-explanatory
Letter d
Self-explanatory
Letter e
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Letter f
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Letter g
Self-explanatory
Letter h
Self-explanatory
Letter i
The property of other parties referred to in letter i includes the property that is managed by another person or institution based on the government policy, foundations within ministries/institutions or state enterprises/local companies.

Article 3

Section (1)
Each state administrator must manage the state finances orderly, obey the laws and regulations, efficient, economical, effective, transparent and accountable with respect to the sense of justice and propriety.

The management referred to in this paragraph include overall activities of planning, control, use, supervision and accountability.

Section (2)
Self-explanatory

Section (3)
Self-explanatory

Section (4)
Authorization function implies that the state budget becomes the basis for implementing revenues and expenditures at the current
Planning function implies that the state budget becomes guidelines for management in planning activities at the current year.

Oversight function implies that the state budget becomes guidelines to assess whether the activities of state administration are in accordance with the provisions that have been determined.

Allocation function implies that the state budget should be directed to reduce unemployment and waste of resources, and to improve the efficiency and effectiveness of economy.

Distribution function implies that the state budget policy should pay attention for the sense of justice and propriety.

Stabilization function implies that the government budget becomes a tool to maintain and strive for the economic fundamentals balance.

Section (5)
Self-explanatory

Section (6)
Self-explanatory

Section (7)
Self-explanatory

Section (8)
Self-explanatory

Article 4
Self-explanatory

Article 5
Self-explanatory

Article 6

Section (1)

Power management of the State Finances as set forth in this paragraph includes general authority and special authority.

General authority includes setting direction, public policy, strategy and priorities in the management of the State Budget, such as the establishment of guidelines for the implementation and
accountability of the State Budget, the establishment of guidelines for the preparation of work plans of ministries/institutions, the establishment of salaries and benefits, as well as guidelines for the management of State Revenues.

Special authority includes technical decision/policy related to the management of the State Budget, among others, the decision of cabinet meeting in the field of the State Budget management, the decision of the details of the State Budget, the decision of the balancing funds and the elimination of state assets and account receivables.

Section (2)
Letter a
Self-explanatory
Letter b
In this provision, what is meant by institutions are non-ministrial state institutions and government institutions.

For the state institutions, what is meant by the head of institutions is officials responsible for the financial management of the institution.

Letter c
Self-explanatory
Letter d
Self-explanatory

Article 7
Self-explanatory

Article 8
Self-explanatory

Article 9
Letter a
Self-explanatory
Letter b
Self-explanatory
Letter c
Self-explanatory
Letter d
Self-explanatory
Letter e
Account receivables referred to in this paragraph is the rights of the state in the context of non-tax revenues of which the levy are the responsibility of the ministries/institutions.
Account payables referred to in this paragraph is the obligation of the state to third parties in order to procure goods and services for which the payment is the responsibility of ministries/institutions as the budget user units and/or other obligations arising under the laws/court decision.

Letter f  
Self-explanatory

Letter g  
The preparation and presentation of financial statements referred to is intended for accountability and transparency in the state financial management, including the performance achieved over the usage of the budget.

Letter h  
Self-explanatory

Article 10

Section (1)  
Self-explanatory

Section (2)  
Letter a  
Self-explanatory
Letter b  
Self-explanatory
Letter c  
Self-explanatory
Letter d  
Self-explanatory
Letter e  
Self-explanatory

Section (3)  
Letter a  
Self-explanatory
Letter b  
Self-explanatory
Letter c  
Self-explanatory
Letter d  
Self-explanatory
Letter e  
Self-explanatory
Letter f  
Self-explanatory
Letter g
The preparation and presentation of financial statements referred to is intended for accountability and transparency in the state financial management, including the performance achieved over the usage of the budget.

Article 11

Section (1)  
Self-explanatory

Section (2)  
Self-explanatory

Section (3)  
In the tax levies including levies for customs duties.

Section (4)  
Self-explanatory

Section (5)  
Details of state expenditures by the organization are adapted to the arrangement of ministries/central government institutions.

Details of state expenditures by function include consisting of public services, defense, order and safety, economy, environment, housing and public facilities, health, tourism, culture, religion, education and social protection.

Details of state expenditures by type of expenditure (economic nature) are comprised of personnel expenditures, goods expenditures, capital expenditures, interest, subsidies, grants, social assistance and other expenditures.

Article 12

Section (1)  
In preparing the State Budget, the operational expenditures are striven for not exceeding revenues in the current fiscal year.

Section (2)  
Self-explanatory

Section (3)  
The budget deficit is limited to a maximum of 3 % of Gross Domestic Product. The amount of loan is limited to a maximum of 60 % of Gross Domestic Product.
Section (4)
The use of the budget surplus should consider the principle of intergenerational accountability so that its use is mainly for a reduction of account payable, creation of fund reserves and an increase in social security.

Article 13
Self-explanatory

Article 14
Self-explanatory

Article 15

Section (1)
Self-explanatory

Section (2)
Self-explanatory

Section (3)
The amendment of Bills concerning the State Budget can be proposed by the House of Representatives as long as it does not lead to increased budget deficits.

Section (4)
Self-explanatory

Section (5)
Self-explanatory

Section (6)
Self-explanatory

Article 16

Section (1)
Self-explanatory

Section (2)
Self-explanatory

Section (3)
Self-explanatory

Section (4)
Details of local expenditures by organization is adapted to the
structure of regional work units/ regional technical institutions.

Details of regional expenditures by function include consisting of public services, defense, order and safety, economy, environment, housing and public facilities, health, tourism, culture, religion, education and social protection.

Details of regional expenditures by type of expenditure (economic nature) are comprised of personnel expenditures, goods expenditures, capital expenditures, interest, subsidies, grants, social assistance and other expenditures.

Article 17
Section (1)
In preparing the Regional Budget, the operational expenditures are striven for not exceeding revenues in the current fiscal year.

Section (2)
Self-explanatory

Section (3)
The budget deficit is limited to a maximum of 3 % of Gross Domestic Product. The amount of loan is limited to a maximum of 60 % of Gross Domestic Product.

Section (4)
The use of the budget surplus should consider the principle of intergenerational accountability so that its use is mainly for a reduction of account payable, creation of fund reserves and an increase in social security.

Article 18
Self-explanatory

Article 19
Self-explanatory

Article 20
Section (1)
Self-explanatory

Section (2)
Self-explanatory
Section (3)
The amendment of Regional Regulation Draft concerning the Regional Budget can be proposed by the Legislative Council as long as it does not lead to increased budget deficits.

Section (4)
Self-explanatory

Section (5)
Self-explanatory

Section (6)
Self-explanatory

Article 21
Self-explanatory

Article 22
Section (1)
Self-explanatory

Section (2)
The Government shall submit to the State Audit Board a copy of any agreement and/or grants that have been signed.

Section (3)
Self-explanatory

Section (4)
Self-explanatory

Article 23
Section (1)
Self-explanatory

Section (2)
The Government shall submit to the State Audit Board a copy of any agreement and/or grants that have been signed.

Article 24
Section (1)
The Government shall submit to the State Audit Board a copy of any agreement and/or grants that have been signed.

Section (2)
Self-explanatory
Section (3)  
Self-explanatory

Section (4)  
Self-explanatory

Section (5)  
Self-explanatory

Section (6)  
Self-explanatory
Section (7)  
Self-explanatory

Article 25  
Section (1)  
What is meant by the managing institution of public funds in this paragraph does not include financial services companies that have been set in separated rules.

Section (2)  
Self-explanatory

Section (3)  
Self-explanatory

Article 26  
Self-explanatory

Article 27  
Section (1)  
Self-explanatory

Section (2)  
Self-explanatory

Section (3)  
Self-explanatory

Section (4)  
The expenditures in this paragraph include the expenditures for urging needs of which the criteria is set out in the Law concerning the State Budget.

Section (5)  
Self-explanatory
Article 28

Section (1)
Self-explanatory

Section (2)
Self-explanatory

Section (3)
Self-explanatory

Section (4)
The expenditures in this paragraph include the expenditures for urging needs of which the criteria is set out in the Regional Regulations concerning the Regional Budget.

Section (5)
Self-explanatory

Article 29
Self-explanatory

Article 30

Section (1)
The audit by the State Audit Board is completed no later than 2 (two) months after the acceptance of financial statements from the Central Government.

Section (2)
Apart from presenting the realization of revenues and expenditures, the Budget Realization Report also explains the job performance of every state ministry/institution.

Article 31

Section (1)
The audit by the State Audit Board is completed no later than 2 (two) months after the acceptance of financial statements from the Local Government.

Section (2)
Apart from presenting the realization of revenues and expenditures, the Budget Realization Report also explains the job performance of every regional work unit.

Article 32

Section (1)
Self-explanatory

Section (2)
If within 2 (two) months do not provide the requested judgment, the State Audit Board is considered fully approve the government accounting standards proposed by the Government.

Article 33
Self-explanatory

Article 34

Section (1)
Policies referred to in this paragraph are reflected on the benefits/outcomes that have to be achieved with the implementation of the functions and programs of the state ministries/institutions/local government.

Section (2)
Self-explanatory

Section (3)
Self-explanatory

Article 35
Self-explanatory

Article 36
Self-explanatory

Article 37
Self-explanatory

Article 38
The laws and regulations related to the implementation of this Law should have been completed no later than 1 (one) year. The implementation begins since the enactment of this Law and should have been completed within 2 (two) years.

Article 39
Self-explanatory