



AUTHORIZED TRANSLATION

LAW OF THE REPUBLIC OF INDONESIA

NUMBER: 17 YEAR 2003

ON

STATE FINANCE

STATE SECRETARY OF THE REPUBLIC OF INDONESIA

**ON THE BLESS OF THE GOD ALMIGHTY
PRESIDENT OF THE REPUBLIC OF INDONESIA**

- Considering: a. that organizing state governance 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 meant in letter a has been regulated in the Chapter VIII Constitution of 1945;
- c. that Article 23C Chapter VIII Constitution of 1945 has messaged other matters concerning the state finance as regulated by the law.
- d. that based on the consideration as meant in letter a, b, and c it is necessary to draw up the Law on State Finance.

In view of: Article 4, Article 5 Paragraph (1), Article 11 Paragraph (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 Paragraph (2), Paragraph (3) and Paragraph (4) Constitution of 1945.

**On the Joint Approval of
THE HOUSE OF REPRESENTATIVES OF
THE REPUBLIC OF INDONESIA
AND
THE PRESIDENT OF THE REPUBLIC OF INDONESIA
HAS DECIDED:**

To stipulate: **LAW ON STATE FINANCE
CHAPTER I
GENERAL PROVISIONS
Article 1**

In this Law meant by:

1. State Finance is all State rights and obligations that may be appraised by money, as well as everything in the form of money and goods, which may become the state properties in respect to the implementation of rights and obligations.
2. Government is the Central Government and/or Regional Government.
3. House of Representatives hereinafter referred to as DPR is the People Representative Council as meant in the Constitution of 1945.
4. Regional House of Representatives hereinafter referred to as DPRD is the People Representative Council of the Province Area, People Representative Council of Regency Area and People Representative Council of City Area as meant in the Constitution of 1945.
5. State Enterprise is a legal entity in which all or a part of its capital possessed by the Central Government.
6. Regional Enterprise is a legal entity in which all or a part of its capital possessed by the Regional Government.
7. State Budget hereinafter referred to as State Budget is the state governance annual financial plan agreed by House of Representatives.

8. Regional Budget hereinafter referred to Regional Budget is the annual financial plan of the Regional Government agreed by Regional House of Representatives.
9. State Revenue is money entered in to the state cash.
10. State Expenditure is money expended from the state cash.
11. Regional Revenue is money entered in to the regional cash.
12. Regional Expenditure is money expended from the regional cash.
13. State Income is the Central Government's rights acknowledged as the riser of net property values.
14. State Expenditure is the Central Government's obligations acknowledged as the reducer of the net property values.
15. Regional Income is the Regional Government's rights acknowledged as the riser of the net property values.
16. Regional Expenditure is the Regional Government's obligations acknowledged as the reducer of the net property values.
17. Financing is each revenue that should be repaid and/or expenditure that will be re-gained, both in the budget year concerned as well as in the next budget year.

Article 2

State Finance as meant in Article 1 Paragraph 1, shall cover:

- a. state right to collect tax, expense and distribute money and to make loan.
- b. state obligation to organize public service tasks of the state governance and to pay the third party's claim.
- c. State Revenue.
- d. State Expenditure.
- e. Regional Revenue.
- f. Regional Expenditure
- g. state properties / regional properties which are managed by itself or other party in the form of money, commercial papers, receivable, goods as well as other rights, which may be appraised by money including property separated at the state enterprises / regional enterprises.
- h. other party properties, which are possessed by the government in the frame of organizing the government task and/or public interest.
- i. other properties obtained by using the facility provided by the government.

Article 3

- (1) State Finance managed orderly; comply with the law regulation, efficient, economics, effective, transparent and accountable by observing justice and compliance.
- (2) State Budget, State Budget revision and accountability of State Budget implementation for each year shall be stipulated by law.
- (3) Regional Budget, Regional Budget revision and accountability of State Budget implementation for each year shall be stipulated by Regional Regulation.
- (4) State Budget/Regional Budget shall have function of authorization, planning, supervision, allocation, distribution and stabilization.

- (5) All revenues, which become the rights and expenditures of the state obligation in the fiscal year concerned must be entered into State Budget.
- (6) All revenues, which become the rights and expenditures of the regional obligation in the fiscal year concerned must be entered into Regional Budget.
- (7) State/regional revenues surplus may be used to finance the state/regional expenditures of the next budget year.
- (8) State/regional revenues surplus use as meant in Paragraph (7) to make reserve funds or participation to the state/regional enterprises must obtain prior written approval from House of Representatives/Regional House of Representatives.

Article 4

Budget year shall cover the period of one year starting from January 1 up to December 31.

Article 5

- (1) Calculation unit in arranging, stipulating and accountability of State Budget/Regional Budget shall be in Rupiah currency.
- (2) The use of other currencies in the implementation of State Budget/Regional Budget shall be regulated by the Minister of Finance in accordance with the prevailing law regulations.

CHAPTER II

AUTHORITY ON THE STATE FINANCIAL MANAGEMENT

Article 6

- (1) President as the Head of Governance shall hold the authority for the state financial management as a part of the governmental power.
- (2) The authority as meant in Paragraph (1):
 - a. is empowered to the Minister of Finance as the fiscal management and Government Representative in the state property ownership to be separated.
 - b. is empowered to the minister/institution leader as Budget User/Goods User of the state ministry/ institution under his supervision.
 - c. is transferred to the governor/regent/Mayor as the head of Regional Government to manage the regional finance and to represent the Regional Government in the ownership of the separated regional properties.
 - d. is not including the authority in the field of monetary, covering among other to expend and distribute money as regulated by law.

Article 7

- (1) The authority on the state financial management shall be used to achieve the state objectives.
- (2) In the frame of organizing the government function to reach the state objectives as meant in Paragraph (1) each year shall be arranged State Budget and Regional Budget.

Article 8

In the frame of authority implementation of the fiscal management, the Minister of Finance shall have the following tasks:

- a. to arrange fiscal policy and macro economic framework;

- b. to arrange State Budget draft and State Budget revision draft;
- c. to legalize budget implementation documents;
- d. to conduct international agreement in the field of finance;
- e. to conduct collection of the state incomes, which have been stipulated by law;
- f. to carry out the state general treasury function;
- g. to arrange financial report constituting as State Budget implementation accountability.
- h. to carry out other tasks in the field of fiscal management based on the law provisions.

Article 9

Minister/institution leader as Budget User / Goods User of the state ministry/institution led by him shall have the tasks as follows:

- a. to arrange draft of the state ministry budget/institution led by him;
- b. to arrange budget implementation documents;
- c. to carry out the state ministry budget / institution led by him;
- d. to carry out collection of non-tax state revenues and to deposit them into the State Cash;
- e. to manage state receivables and liabilities as the responsibility of the state ministry / institution led by him;
- f. to manage state properties/assets, which become the responsibility of the state ministry/institution led by him;
- g. to arrange and submit financial report of the state ministry/institution led by him.
- h. to conduct other task which becomes the responsibility based on the law provisions.

Article 10

- (1) The financial management authority of the Regional Government as meant in Article 6 Paragraph (2) letter c:
 - a. shall be carried out by the head of working unit of the regional financial management as Regional Budget management official;
 - b. shall be carried out by the working unit head of the regional apparatus as the regional budget/goods user official;
- (2) In the frame of the Regional Financial Management, the Regional Financial Management Official shall have the tasks as follows:
 - a. to arrange and carry out Regional Budget management policy;
 - b. to arrange Regional Budget draft and Regional Budget draft revision;
 - c. to conduct regional income collection, which has been stipulated by the Regional Regulation;
 - d. to carry out the regional general treasury function;
 - e. to arrange the financial report constituting as the Regional Budget implementation accountability.
- (3) Working unit head of the regional apparatus as the regional budget/goods user official shall have the tasks as follows:
 - a. to arrange working unit budget of the regional apparatus led by him;
 - b. to arrange budget implementation documents;
 - c. to carry out working unit budget of the regional apparatus led by him;

- d. to conduct non tax revenues collection;
- (1) e. to manage the regional accounts, which becomes the responsibility of regional apparatus working unit led by him;
- (2) f. to manage regional properties/assets, which becomes the responsibility of the regional apparatus working unit led by him;
- (3) g. to arrange and submit the financial report of the regional apparatus working unit led by him.

CHAPTER III

ARRANGING AND STIPULATING STATE BUDGET

Article 11

- (1) State Budget is a realization of the state financial management stipulated each year based on the law.
- (2) State Budget consists of income budget, expenditure budget and financing.
- (3) State income consists of tax revenues, non-tax revenues and grant.
- (4) State expenditure shall be used for the purpose of organizing Central Government tasks and the implementation of financial equilibrium among the Central and Regional Governments.
- (5) State expenditure shall be specified according to the organization, function and type of expenditures.

Article 12

- (1) State Budget shall be arranged in accordance with the needs of organizing state government and capability in collecting state revenues.
- (2) State Budget draft arrangement as meant in Paragraph (1) shall be based on the government working plan in the frame of realizing the achievement of the state objectives.
- (3) In the case of budget is estimated deficit, it shall be stipulated the financial sources to cover such deficit in the Law on STATE BUDGET .
- (4) In the case of budget is estimated surplus, the Central Government may submit budget surplus application to House of Representatives.

Article 13

- (1) Central Government shall submit fiscal policy basis and macro economic framework for the next budget to House of Representatives at the latest on the mid of May in the current year.
- (2) Central Government and House of Representatives shall discuss the macro economic framework and fiscal policy basis submitted by the Central Government in the preliminary discussion of State Budget draft of the next budget year.
- (3) Based on the macro economic framework and the fiscal policy basis, the Central Government together with House of Representatives shall discuss the general policy and budget priority to be as a reference for each state ministry/institution in arranging budget proposal.

Article 14

- (1) In the frame of arranging State Budget draft, the minister/institution leader as the budget user / goods users shall arrange working plan and budget of the state minister/institution for the next year.
- (2) Working plan and budget as meant in Paragraph (1) shall be arranged based on the working performance being achieved.
- (3) Working plan and budget as meant in Paragraph (1) shall be accompanied by expenditure estimation for the next year after the current budget year.
- (4) Working plan and budget as meant in Paragraph (1) shall be submitted to House of Representatives to be discussed in the preliminary discussion of State Budget draft.
- (5) Working plan and budget discussion result shall be submitted to the Minister of Finance as the materials for arranging law draft on State Budget for the next year.
- (6) Further provision concerning arrangement of working plan and budget of the state minister/institution shall be regulated by the Government Regulation.

Article 15

- (1) Central Government shall submit Law Draft on State Budget, accompanied by the financial note and supporting documents to House of Representatives on August of the previous year.
- (2) The discussion on Law Draft of State Budget shall be conducted in accordance with the law regulating the structure and status of House of Representatives.
- (3) House of Representatives may submit the proposal to conduct revision on the total revenues and expenditure in the Law Draft on State Budget.
- (4) Taking decision by House of Representatives concerning the Law Draft on State Budget shall be conducted at the latest 2 (two) months before the fiscal year concerned is carried out.
- (5) State Budget that has been agreed by House of Representatives shall be in the detail up to the organization unit, function, program, activity and type of expenditure.
- (6) If House of Representatives does not agree to the Law Draft as meant in Paragraph (1), Central Government may conduct expenditure at the highest as much as State Budget figure for the previous fiscal year.

CHAPTER IV

ARRANGING AND STIPULATING REGIONAL BUDGET

Article 16

- (1) Regional Budget is a realization of the regional financial management stipulated each year based on the Regional Regulation.
- (2) Regional Budget consists of income budget, expenditure budget and financing.
- (3) Regional income shall originate from the regional native income, equilibrium funds and other legal incomes.
- (4) Regional expenditure shall be specified according to the organization, function and type of expenditures.

Article 17

- (1) Regional Budget shall be arranged in accordance with the needs of organizing regional government and capability in collecting regional revenues.
- (2) Regional Budget Draft arrangement as meant in Paragraph (1) shall be based on the Regional Government working plan in the frame of realizing the achievement of the state objectives.
- (3) In the case of budget is estimated deficit, it shall be stipulated the financial sources to cover such deficit in the Regional Regulation on Regional Budget.
- (4) In the case of budget is estimated surplus, the surplus application is stipulated in the Regional Regulation on Regional Budget.

Article 18

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

Article 19

- (1) In the frame of arranging Regional Budget draft, the Working Unit of Regional Apparatus as the budget user shall arrange working plan and budget of the Working Unit of Regional Apparatus for the next year.
- (2) Working Unit of Regional Apparatus Working plan shall be arranged based on the working performance being achieved.
- (3) Working plan and budget as meant in Paragraph (1) shall be accompanied by expenditure estimation for the next year after the budget year that has been arranged.
- (4) Working plan and budget as meant in Paragraph (1) shall be submitted to Regional House of Representatives to be discussed in the preliminary discussion of Regional Budget Draft.
- (5) Working plan and budget discussion result shall be submitted to the official of regional financial management as the materials for arranging Regional Regulation draft on Regional Budget for the next year.
- (6) Further provision concerning arrangement of working plan and budget of the Working Unit of Regional Apparatus shall be regulated by the Regional Regulation.

Article 20

- (1) Regional Government shall submit Regional Regulation draft on Regional Budget, accompanied by explanation and supporting documents to Regional House of Representatives on the first week of October of the previous year.
- (2) The discussion on Regional Regulation draft of Regional Budget shall be conducted in accordance with the law regulating the structure and status of Regional House of Representatives.
- (3) Regional House of Representatives may submit the proposal to conduct revision on the total revenues and expenditure in the Regional Regulation draft on Regional Budget.
- (4) Taking decision by Regional House of Representatives concerning the Regional Regulation draft on Regional Budget shall be conducted at the latest 1 (one) month before the fiscal year concerned is carried out.
- (5) Regional Budget that has been agreed by Regional House of Representatives shall be in the detail up to the organization unit, function, program, activity and type of expenditure.
- (6) If Regional House of Representatives does not agree to the Regional Regulation draft as meant in Paragraph (1), to finance the monthly needs of Regional Government may conduct expenditure at the highest as much as Regional Budget figure for the previous fiscal year.

CHAPTER V FINANCIAL RELATIONSHIP BETWEEN CENTRAL GOVERNMENT AND CENTRAL BANK, REGIONAL GOVERNMENT AND FOREIGN GOVERNMENT/INSTITUTION

Article 21

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

Article 22

- (1) Central Government shall allocate the equilibrium fund to the Regional Government based on the central and regional financial equilibrium law.
- (2) The Central Government may give loan and/or grant to the Regional Government or vice versa.
- (3) Granting loan and/or grant as meant in Paragraph (2) shall be conducted after obtaining the approval of House of Representatives.
- (4) Regional Government may give loan to/receive the loan from the other areas on the approval of Regional House of Representatives.

Article 23

- (1) The Central Government may give grant/loan to or receive grant/loan from foreign government/institution on the approval of House of Representatives.
- (2) The loan and/or grant received by the Central Government as meant in Paragraph (1) may be continued to be lent to Regional Government/State Enterprises/Regional Enterprises.

CHAPTER VI

FINANCIAL RELATIONSHIP BETWEEN GOVERNMENT AND STATE ENTERPRISES, REGIONAL ENTERPRISES, PRIVATE ENTERPRISES AND PUBLIC FUND MANAGEMENT BOARD

Article 24

- (1) The Government may give loan/grant/capital participation to and receive loan/grant from state/regional enterprises
- (2) Granting loan/grant/capital participation and acceptance of loan/grant as meant in Paragraph (1) shall previously be stipulated in State Budget/Regional Budget.
- (3) The Minister of Finance shall conduct guidance and supervision to the state enterprises.
- (4) Governor/Regent/Mayor shall conduct guidance and supervision to the regional enterprises.
- (5) Central Government may conduct sale and/or privatization of state enterprises after obtaining approval from House of Representatives.
- (6) Regional Government may conduct sale and/or privatization to the regional enterprises after obtaining the approval of Regional House of Representatives.
- (7) In certain condition to save national economy, the Central Government may give loan and/or conduct capital participation to private enterprises after obtaining approval from House of Representatives.

Article 25

- (1) The Minister of Finance shall conduct guidance and supervision to public fund management board obtaining the facilities from the Central Government.
- (2) The governor/regent/mayor shall conduct guidance and supervision to public fund management board obtaining facilities from the Regional Government.
- (3) The provision as meant in Article 3 Paragraph (1) shall be effective for public fund management board obtaining facilities from the government.

CHAPTER VII

IMPLEMENTATION OF STATE BUDGET AND REGIONAL BUDGET

Article 26

- (1) After State Budget has been stipulated by law, its implementation shall be further stated based on the Presidential Decree.
- (2) After Regional Budget has been stipulated by the regional regulation, its implementation shall be further stated based on the Decision of Governor/Regent/Mayor.

Article 27

- (1) The Central Government shall arrange the Realization Report for the first semester of State Budget and prognosis for next 6 (six) months.
- (2) The report as meant in Paragraph (1) shall be submitted to House of Representatives at the latest at the end of July of the fiscal year concerned, to be jointly discussed between House of Representatives and Central Government.

- (3) State Budget adjustment to the development and/or revisions of the condition shall be discussed jointly between House of Representatives and Central Government in the frame of arranging the estimation of the revision on State Budget for the current fiscal year if:
 - a. macro economic development is not appropriate anymore to the assumption used in State Budget;
 - b. the change of fiscal policy basis;
 - c. condition causing the movement of budget among organization unit, inter-activity and inter-expenditure type;
 - d. condition causing the budget balance more than the previous year must be used for the current year budget financing.
- (4) In emergency condition, the Government may conduct expenditure, which have not been stated in the budget that further proposed in the draft of State Budget revision and/or submitted in the Report of Budget Realization.
- (5) The Central Government shall submit law draft on the revision of State Budget for the year concerned based on the revision as meant in Paragraph (3) for obtaining approval of House of Representatives before the fiscal year concerned expired.

Article 28

- (1) The Regional Government shall arrange the Realization Report for the first semester of Regional Budget and prognosis for next 6 (six) months.
- (2) The report as meant in Paragraph (1) shall be submitted to Regional House of Representatives at the latest at the end of July of the fiscal year concerned, to be jointly discussed between Regional House of Representatives and Regional Government.
- (3) Regional Budget adjustment to the development and/or revisions of the condition shall be discussed jointly between Regional House of Representatives and Regional Government in the frame of arranging the estimation of the revision on Regional Budget for the current fiscal year if:
 - a. inappropriate development with the assumption of general policy of Regional Budget;
 - b. condition causing the movement of budget among organization unit, inter-activity and inter-expenditure type;
 - c. condition causing the budget balance more than the previous year must be used for the current year budget financing.
- (4) In emergency condition, the Regional Government may conduct expenditure, which have not been stated in the budget that further proposed in the draft of Regional Budget revision and/or submitted in the report of budget realization.
- (5) The Regional Government shall submit Regional Regulation draft on the revision of Regional Budget for the year concerned based on the revision as meant in Paragraph (3) for obtaining approval of Regional House of Representatives before the fiscal year concerned expired.

Article 29

The provision concerning state financial management in the frame of State Budget and Regional Budget implementation shall be stipulated in the law regulating the state treasury.

CHAPTER VIII

ACCOUNTABILITY OF STATE BUDGET AND REGIONAL BUDGET IMPLEMENTATION

Article 30

- (1) The President shall submit law draft on accountability of State Budget implementation to House of Representatives in the form of financial report which have been audited by the State Audit Board at the latest 6 (six) months after the expiration of the budget year.
- (2) The financial report shall at least cover the Realization Report of State Budget, Balance Sheet, Cash Flow Report and the Note on Financial Report, which are enclosed by the financial report of the state enterprises and other bodies.

Article 31

- (1) The Governor/Regent/Mayor shall submit draft of regional regulation on accountability of Regional Budget implementation to Regional House of Representatives in the form of financial report which have been audited by the State Audit Board at the latest 6 (six) months after the expiration of the budget year.
- (2) The financial report shall at least cover the Realization Report of Regional Budget, Balance Sheet, Cash Flow Report and the Note on Financial Report, which are enclosed by the financial report of the regional enterprises.

Article 32

- (1) The form and content of the accountability report on State Budget/Regional Budget implementation as meant in Article 30 and Article 31 shall be arranged and presented in accordance with the government audit standards.
- (2) The government audit standards as meant in Paragraph (1) shall be arranged by an independent standard committee and stipulated by the Government Regulation after previously obtain consideration from the State Audit Board.

Article 33

The inspection/auditing of the management and accountability of the state finance shall be regulated by the separated law.

CHAPTER IX

CRIMINAL PROVISION, ADMINISTRATIVE SANCTION AND COMPENSATION

Article 34

- (1) The Minister/Institution Head/Governor/Regent/Mayor who is proven conducting deviation to the policies which have been stipulated in the law on State Budget/Regional Regulation on Regional Budget shall subject to imprisonment and penalty in accordance with the law provisions.
- (2) The organizational unit management of State Ministry / Institution/Working Unit of Regional Apparatus who is proven conducting deviation on the budget activities which have been stipulated in the law on State Budget/Regional Regulation on Regional Budget shall subject to imprisonment and penalty in accordance with the law provision.

- (3) The President shall give administrative sanction in accordance with the law provision to the state official as well as other party who could not 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 obliged to compensate the loss referred to.
- (2) Anybody who is given the tasks to receive, keep, pay and/or transfer the money or commercial paper or state goods are the treasurer who is obliged to submit the accountability report to the State Audit Board.
- (3) Each treasurer as meant in Paragraph (2) shall be responsible personally on the state financial loss occurred on its management.
- (4) The provision concerning the state loss settlement shall be regulated in the law concerning the state treasury.

CHAPTER X

TRANSITIONAL PROVISION

Article 36

- (1) The provisions concerning recognition and measurement of income and expenditure on the accrual basis as meant in Article 1 figure 13, 14, 15, and 16 of this law shall be carried out at the latest within 5 (five) years. As long as the recognition and measurement of the income and the expenditure on the accrual basis have not been carried out, it shall be used the recognition and measurement of the cash basis.
- (2) The time limit for submitting financial report by the Central Government/Regional Government and also settlement on the financial report auditing of the Central Government/Regional Government by the State Audit Board as meant in Article 30 and Article 31 shall be effective for State Budget/Regional Budget of the year 2006.

CHAPTER XI

CONCLUDING PROVISION

Article 37

At the time of issuance of this law:

1. Indische – Comptabiliteitswet (ICW), the Statute Book of 1925 Number 448 as several times amended, the last by the Law Number 9 Year 1968 (Statute Book of the Republic of Indonesia of 1968 Number 53, Supplement to the Statute Book Number 2860);
 2. Indische Bedrijvenwet (IBW), the Statute Book of 1927 Number 419 in conjunction with the Statute Book of 1936 Number 445;
 3. Reglement voor het Administratief Beheer (RAB), the Statute Book of 1933 Number 381;
- as long as have been regulated in this law, shall be stated invalid anymore.

Article 38

The implementation provision as a follow up of this law has been completed at the latest 1 (one) year as of the enactment of this law.

Article 39

This law shall be effective on the enactment date.

For public cognizance, this law shall be announced by placing it in the Statute Book of the Republic of Indonesia.

Legalized in Jakarta

On _____

PRESIDENT OF THE REPUBLIC OF INDONESIA

MEGAWATI SOEKARNOPUTRI

Enacted in Jakarta

On _____

**STATE SECRETARY OF
THE REPUBLIC OF INDONESIA**

BAMBANG KESOWO

STATUTE BOOK OF THE REPUBLIC OF INDONESIA OF ____ NUMBER ____

I. GENERAL

1. Background

In the frame of reaching the state objective as stated in Paragraph IV of the preamble of the Constitution of 1945, it has been established a state governance organizing the government function in various fields. The establishment of the state governance concerned has produced the rights and obligations of the state, which can be assessed/appraised by money, which should be managed in the state financial management system.

As a people sovereign state, based on the law and organizing the state governance based on the constitution, the state financial management system must conform to the basic regulation stipulated in the Constitution. In the Constitution of 1945 Chapter VIII on the Finance, among other is mentioned that the state budget shall be stipulated each year by the law and the provision concerning the tax and other collection in emergency characteristic for the state purpose as well as the kind and price of currency shall be stipulated by the law. Other matters concerning the state finance in accordance with the message of Article 23C shall be regulated by the law.

For the time being in the implementation of the state financial management it is still used the provision of the law arranged at the colonialism era of Netherlands which is effective based on the transitional regulation of the Constitution of 1945 namely Indische Comptabiliteitswet known by the name ICW of the Statute Book of 1925 Number 448, further amended and enacted in the Statute Book of 1954 Number 6, 1955 Number 49, and the last Law Number 9 Year 1968 which is stipulated for the first time in 1864 and start to be effective in 1867, Indische Bedrijvenwet (IBW), the Statute Book of 1927 Number 419 in conjunction with the Statute Book of 1936 Number 445, Reglement voor het Administratief Beheer (RAB), the Statute Book of 1933 Number 381. Meanwhile, in the implementation of the accountability auditing of state finance shall be used Instructie en verdere bepalingen voor de Algemeene Rekenkamer (IAR), the Statute Book o 1933 No. 320. The law regulations concerned could not accommodate various developments occurred in the state institution system and the government financial management of the Republic of Indonesia. Therefore, although various provisions concerned has formally still effective, in material some of the provision in the law concerned has not been implemented anymore.

The weaknesses of the law in the state financial field shall become the one of the factor on the occurrence several types of the deviation in the state financial management. In the effort to eliminate the deviation concerned and to realize the sustainable fiscal management system in accordance with the basic regulation which has been stipulated in the Constitution and the general basis which is effective universal in organizing the state governance shall be needed a law regulating the state financial management.

The effort to arrange the law regulating the state financial management has been initiated since the establishment of the Indonesian state. Therefore, the completion of the law on the state finance is the continuation and the result of various efforts, which have been conducted for time being in the frame of fulfilling the constitutional obligation, which is messaged by the Constitution of 1945. \

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

The new matters and/or the fundamental changes in the state financial provision which is regulated in this law shall cover 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 authority of the President to the Minister of Finance and the Minister/Institutional Leader, structure of State Budget and Regional Budget, the provision concerning arranging and stipulating State Budget and Regional Budget, regulation on the financial relationship between Central Government and Central Bank, Regional Government and the foreign government/institution, regulation of the financial relationship between the government and the state enterprises, the regional enterprises and private enterprises and the public fund management board, as well as the stipulating the form and time limit for submitting the accountability report of State Budget and Regional Budget implementation.

This law has anticipated the change of the accounting standard in the government environment in Indonesia, which is referred to the development of the accounting standard in the government internationally.

3. Understanding and the Scope of State Finance.

The approach used in formulating the State Finance is from the object, subject, process and the objective factors. From the object factor as meant by the State Finance cover all right and all obligations of the state which can be appraised by money, including the policy and activity in the field of fiscal, monetary and state properties management which are separated, as well as everything both in the form of money or goods which may become the state properties in relation with the implementation of the right and obligation. From the subject factor meant by the State Finance covering all objects as mentioned above which are possessed by the state, and/or controlled by the Central Government, Regional Government, State/Regional Enterprises, and other bodies which have relation to the state finance. From the process sector, the State Finance covers all series of activities in relation to the object management as mentioned above starting from the formulating of the policy and taking decision up to the accountability. From the objective sector, the State Finance covers all policies, activities and legal relationships in respect to the ownership and/or controlling the object as mentioned above in the frame for organizing the state governance.

The broad management field of State Finance can be classified into the sub-field of fiscal management, sub-field of monetary management and sub-field of state assets management, which are separated.

4. General Principles of the State Financial Management

In the frame of supporting the realization of good governance in the organizing the state, the state financial management should be organized professionally, transparent and accountable in accordance with the basic regulation, which have been stipulated in the Constitution. In accordance with the message of Article 23C Constitution of 1945, the law on the State Finance should describe

the basic regulation which have been stipulated in the Constitution concerned into the general principles covering the principle 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 finance management, among others:

- accountability with oriented to the result;
- professional;
- proportionality;
- transparency in the state financial management;
- the financial audit by the independent audit board.

The general principles concerned should also ensure organizing of the regional governance principle as formulated in Chapter VI Constitution of 1945. By employing the general principles in the law on the State Finance, the implementation of this law beside to become the reference in the state financial management reform, it is also to strengthen the basis of the decentralization implementation and regional autonomy in the Unity State of the Republic of Indonesia.

5. The Authority on State Financial Management

The President as the head of the governance has the authority for the state finance management as a part of the governance authority. The authority concerned covering the general authority and special authority. To assist the President in organizing the authority concerned, some of the authority concerned are empowered to the Minister of Finance as the Fiscal Management and the Government Representative in the state financial ownership to be separated, as well as to the Minister/Head of the Institution as the Budget User / Goods User of the state minister/institution led by him. 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/Leader of the Institution is principally as the Chief Operational Officer (COO) for a certain field of the governance. This principle should be implemented consistently in order to be 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 organizing the government task.

Fiscal management sub-field covering 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 organizing the state government as the authority of the President shall be transferred to the Governor/Regent/Mayor as the regional financial manager. Therefore, to reach the stability of Rupiah value the task to stipulate and carry out the monetary policy as well as to regulate and maintain the smoothness of the payment system shall be conducted by the Central Bank.

6. Arranging and Stipulating State Budget and Regional Budget

The provision concerning arranging and stipulating State Budget and Regional Budget in this law shall cover the confirmation of the objective and function of the government budgeting, confirmation of House of Representatives/Regional House of Representatives and the government role in the process of arranging and stipulating budget, integrating the performance accountability

system in the budgeting system, completing the budget classification, integrating budget and using the framework of medium term expenditure in the arranging budget.

ministry Budget is an accountability tool, management and economic policy. As the instrument of the economic policy budget shall be functioning to realize the growth and stability of economic as well as the even distribution of the income in the frame of reaching the state objective. In the effort to straight-line the objective and function of the budget, it should be conducted the regulation clearly the role of House of Representatives/Regional House of Representatives and the government in the process of arranging and stipulating the budget as the description of the basic regulation which have been stipulated in the Constitution of 1945. In relation to that matters, in this law it is mentioned that the state budget/regional budget shall be specified until the organization unit, function, program, activity and type of budget. It means that each moving of the budget inter-unit of organization, inter-activity and inter-type of the expenditure must obtain the approval of House of Representatives/Regional House of Representatives.

The other problem, which is also important in the effort of improving the process of budgeting in public sector, is the application of the budget on the working performance basis. Considering that the budget system in the working performance basis/result need the criteria on performance control and evaluation as well as to avoid the duplication in arranging the working plan and budget of the state ministry/institution/ regional apparatus, it should be conducted the integration of accountability system of the performance in the budgeting system by introducing the system for arranging working plan and budget of the state ministry/institution/regional apparatus. By arranging the working plan and budget of the ministry/institution/regional apparatus concerned it can be made the need for the budget on the working performance basis and the measurement of the performance accountability of the ministry/institution/regional apparatus concerned.

In line with the effort to stipulate the budget on the performance basis at the public sector, it is also necessary to conduct the change of budget classification in order to conform to the classification used internationally. The change in classification of government transaction concerned are aimed to facilitate the implementation of the budget for the performance basis, to give the objective description and proportional concerning the government activity, to maintain the consistency and accounting standard of the public sector as well as to facilitate the presentation and to improve the credibility of the government financial statistic.

For the time being, 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 give the focus to the meaning of the development importance, in the implementation have been rising 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 dynamic of the government organizing need in the globalization era. The dynamic development in the organizing of the government need the fiscal planning system consisting of the annual budget arranging system carried out in accordance with the medium term expenditure framework as carried out in many developed countries.

Although the budget may be arranged well, if the process of the stipulation are delayed will be potential to produce problem in its implementation. Therefore, in this law is regulated clearly the

mechanism of budget discussion in House of Representatives/Regional House of Representatives including the task division between the budget committee and the working committee of the state ministry/institution/regional apparatus in House of Representatives/Regional House of Representatives.

7. The Financial Relationship between the Central Government and Central Bank, Regional Government, Foreign Government/Institution, State Enterprises, Regional Enterprises, Private Enterprises as well as Public Fund Management Board

In line with the broad and complicated the state financial management activity, it is necessary to regulate the provision concerning the financial relationship between the government and the infra/supranational institution. The provision concerned covers the financial relationship between the Central Government and central bank, Regional Government, foreign government, foreign body/institution as well as the financial relationship between the government and state enterprises, regional enterprises, private enterprises and the public fund management board. In the financial relationship between the Central Government and central bank, it is confirmed that the Central Government and central bank shall conduct coordination in stipulating and implementation of the fiscal and monetary policies. In the relationship with the Regional Government, this law shall confirm the existence of the Central Government obligation to allocate the equilibrium fund to the Regional Government. In addition, this law shall regulate also concerning the foreign loan acceptance of the government. In relation between the government and the state enterprises, the regional enterprises, private enterprises and Public Fund management board shall be stipulated that the government may give the loan/grant/capital participation to and receive the loan/grant from the state enterprises/regional enterprises after obtaining the approval from House of Representatives/Regional House of Representatives.

8. State Budget and Regional Budget Implementation

After State Budget is stipulated in detail by the law, its implementation shall be further stated by the Presidential Decree as the guideline for the state ministry/institution in the implementation of the budget. The elaboration in the Presidential Decree is particularly concerning any matters which have not been detailed in the law on State Budget, 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 charges of the state ministry/institution. In addition, such elaboration is to cover the fund equilibrium allocation for the province/regency/city and allocation of subsidiary in accordance with the needs of the receiving company/body.

In order to give information concerning the development of State Budget/Regional Budget implementation, the central government/regional government should submit the realization report of the first semester to House of Representatives/Regional House of Representatives at the end of July of the fiscal year in concerned. Information submitted at such report shall become the evaluation materials of State Budget/Regional Budget implementation of the first semester and the adjustment/revisions of State Budget/Regional Budget in the following semester.

The provisions concerning state financial management in the frame of State Budget/Regional Budget implementation shall be stipulated separately in the law regulating the state treasury

considering that they are more related to the inter-state ministry/institution administrative relations in the government environment.

9. Accountability of State Financial Management

One of the concrete efforts to realize 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 arranged by following the government audit standards that generally accepted.

In this law is stipulated that the accountability report of State Budget/Regional Budget implementation shall be submitted in the form of financial report that at least contain the report of budget realization, balance sheet, cash flow report and note of financial report arranged based on the government audit standards. The Central Government financial report which have been audited by the State Audit Board must be submitted to House of Representatives at the latest 6 (six) months after the expiration of the relevant budget year, and also the financial report of the Regional Government, which have been audited by the State Audit Board must be submitted to Regional House of Representatives at the latest 6 (six) months after the expiration of the relevant budget year.

In the frame of accountability of the state financial management, the minister/institution leader/governor/regent/ mayor as the user of the budget/goods shall be responsible to the implementation of the policy stipulated in the Law on State Budget/Regional Regulation on Regional Budget, from the income/benefit. While the Management of the organization unit of the state ministry/institution shall be responsible to the implementation of the activity stipulated in the Law on State Budget, and the Head of Regional Apparatus Working Unit shall be responsible to the implementation of the activity stipulated in the Regional Regulation on Regional Budget, from the goods and/or services to be provided (output). As the consequence, in this law shall be regulated a sanction that is effective for the minister/institution leader/governor/ regent/Mayor and the Leaders of organization unit of the state ministry/institution /Regional Apparatus Working Unit that is proved conducting deviation on the policy/activity which have been stipulated in the Law on State Budget/Regional Regulation on Regional Budget. The provisions on the sanction are aimed as the preventive and repressive effort, and function as the guarantee on the observance to the Law on State Budget/Regional Regulation on Regional Budget concerned.

In addition, it should be confirmed the principles, which are effective universal that those who is given authority to receive, keep and pay or transfer the money, commercial papers or goods as the state properties shall be responsible individually on all deficiency occurred in its management. The obligation to compensate the state financial loss by the state financial managements are constituting as the reliable intern control element.

II. ARTICLE BY ARTICLE

Article 1

Self-elucidating

Article 2

Letter a

Self-elucidating

Letter b

- Self-elucidating
- Letter c
- Self-elucidating
- Letter d
- Self-elucidating
- Letter e
- Self-elucidating
- Letter f
- Self-elucidating
- Letter g
- Self-elucidating
- Letter h
- Self-elucidating
- Letter i

Property of other party as meant in letter i covers the properties managed by other persons or bodies based on the government policy, foundations in the state ministry/institution environment or state/regional enterprises.

Article 3

Paragraph (1)

Each state apparatus is obliged to manage the state finance orderly, committed to the law regulations, efficient, economical, effective, transparent, and accountable by observing the justice and compliance feeling.

Management as meant in this Paragraph shall cover all activities of planning, controlling, using, supervising and accountability.

Paragraph (2)

Self-elucidating

Paragraph (3)

Self-elucidating

Paragraph (4)

Authority function means that the state budget shall become the basis for the implementation of the revenues and expenditure in the relevant year.

Planning function means that the state budget shall become the basis for the management in making planning of the activities in the relevant year.

Supervision function means that the state budget shall become the basis for evaluating whether the state governance organization in accordance with the stipulated provisions.

Allocation function means that the state budget must be directed to reduce unemployment and resource as well as to increase efficiency and effectiveness of the economics.

Article 7 Distribution function means that the state budget policy must observe the justice and compliance feeling.

Article 8 Stabilization function means that the state budget shall become the tool to maintain and endeavor the economic fundamental equilibrium.

Paragraph (5)
Self-elucidating

Paragraph (6)
Self-elucidating

Paragraph (7)
Self-elucidating

Paragraph (8)
Self-elucidating

Article 4
Self-elucidating

Article 5
Self-elucidating

Article 6
Paragraph (1)

Authority of the State Financial management as meant in this Paragraph shall cover the authority in the general characteristics and the authority in special characteristics.

General authority shall cover direction stipulating, general policy, strategy and priority in State Budget management, among other stipulating the guidelines of State Budget implementation and accountability, stipulating working plan arrangement guidelines of state ministry/institution, stipulating salary and benefit, and the guidelines of State Revenue management.

Specific authorities cover the technical decisions/policy in connection with the State Budget management, among other the decision of cabinet session in the field of State Budget management, the decision of State Budget details, the decision of equilibrium fund and writing off the state assets and receivable accounts.

Paragraph (2)
Letter a
Self-elucidating

Letter b
In this provisions, meant by institution is the state institution and non-state ministry government institution.

Letter c
In the state institution, meant by institutional leader is the official who is responsible on the financial management of the institution concerned.

Letter d
Self-elucidating

Article 7 Letter h

Self-elucidating

Article 8

Letter a

Self-elucidating

Letter b

Self-elucidating

Letter c

Self-elucidating

Letter d

Self-elucidating

Letter e

Self-elucidating

Letter f

Self-elucidating

Letter g

Self-elucidating

Letter h

Self-elucidating

Article 9

Letter a

Self-elucidating

Letter b

Self-elucidating

Letter c

Self-elucidating

Letter d

Self-elucidating

Letter e

The account receivable as meant in this Paragraph is the state rights in the frame of non-tax state revenues which its collection shall become responsibility of the state ministry/institution concerned.

The payable account as meant in this Paragraph is the state obligation to the third party in the frame of goods and service procurements which its payment shall become responsibility of the state ministry/institution as the user unit of the budget and/or other obligation rising based on the law/court judgment.

Article 11

Letter f

Self-elucidating

Letter g

Arranging and presentation of financial report is in the frame of accountability and transparency in the management of state finance, including the performance achieved on the use of the budget

- Letter h
 - Self-elucidating
- Article 10
 - Paragraph (1)
 - Self-elucidating
 - Paragraph (2)
 - Letter a
 - Self-elucidating
 - Letter b
 - Self-elucidating
 - Letter c
 - Self-elucidating
 - Letter d
 - Self-elucidating
 - Letter e
 - Self-elucidating
 - Paragraph (3)
 - Letter a
 - Self-elucidating
 - Letter b
 - Self-elucidating
 - Letter c
 - Self-elucidating
 - Letter d
 - Self-elucidating
 - Letter e
 - Self-elucidating
 - Letter f
 - Self-elucidating
 - Letter g
 - Arranging and presentation of financial report is in the frame of accountability and transparency in the management of regional finance, including the performance achieved on the use of the budget
- Article 11
 - Paragraph (1)
 - Self-elucidating
 - Paragraph (2)
 - Self-elucidating
 - Paragraph (3)
 - In the taxation collection shall include the entry duty and tariff
 - Paragraph (4)
 - Self-elucidating

Paragraph (5)

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

Article 15

Paragraph (1)

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

Paragraph (2)

State expenditure detail according to the type of expenditure (economic characteristics) among other consisting of the employee expenditures, goods expenditures, capital expenditures, interest, subsidiary, grant, social contribution and others.

Article 12

Paragraph (1)

In the case of arranging the relevant State Budget, it is endeavored that the operational expenses shall not exceed the income in the relevant budget year.

Paragraph (2)

Self-elucidating

Paragraph (3)

The budget deficit referred to shall be limited maximally 3% of the Gross Domestic Product. The total loan is limited maximally 60% of the Gross Domestic Product.

Paragraph (4)

Budget surplus use should consider the accountability principles inter generation, so that its use shall be prioritized for the debt reduction, reserve forming and increasing social insurance.

Article 13

Paragraph (1)

Self-elucidating

Paragraph (2)

Self-elucidating

Paragraph (3)

Self-elucidating

Article 14

Paragraph (1)

Article 17

Self-elucidating

Paragraph (2)

Self-elucidating

Paragraph (3)

Self-elucidating

Paragraph (4)

Self-elucidating

Paragraph (5)

Self-elucidating

Paragraph (6)

Paragraph Self-elucidating

Article 15

Paragraph (1)

Self-elucidating

Article Paragraph (2)

Self-elucidating

Paragraph (3)

Revision of the Law Draft on State Budget may be proposed by House of Representatives as long as it does not produce budget deficit.

Paragraph (4)

Self-elucidating

Paragraph (5)

Self-elucidating

Paragraph (6)

Self-elucidating

Article 16

Paragraph (1)

Self-elucidating

Paragraph (2)

Self-elucidating

Paragraph (3)

Self-elucidating

Paragraph (4)

Regional expenditure detail according to the organization shall be adjusted to the structure of regional apparatus/regional technical institution.

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

Regional expenditure detail according to the type of expenditure (economic characteristics) among other consisting of the employee expenditures, goods expenditures, capital expenditures, interest, subsidiary, grant and social contribution.

Article 17

Paragraph (1)

In the case of arranging Regional Budget, it is endeavored that the operational expenses shall not exceed the income in the relevant budget year.

Paragraph (2)

Self-elucidating

Paragraph (3)

Article 21 The budget deficit referred to shall be limited maximally 3% of the Gross Domestic Product of the area concerned. The Total loan is limited maximally 60% of the Gross Domestic Product of the area concerned.

Paragraph (4)

Budget surplus use should consider the accountability principles inter generation, so that its use shall be prioritized for the debt reduction, reserve forming and increasing social insurance.

Article 18

Paragraph (1)

Self-elucidating

Paragraph (2)

Self-elucidating

Paragraph (3)

Self-elucidating

Article 19

Paragraph (1)

Self-elucidating

Paragraph (2)

Self-elucidating

Paragraph (3)

Self-elucidating

Paragraph (4)

Self-elucidating

Paragraph (5)

Self-elucidating

Paragraph (6)

Self-elucidating

Article 20

Paragraph (1)

Self-elucidating

Paragraph (2)

Self-elucidating

Paragraph (3)

Revision of the Draft of Regional Regulations on Regional Budget may be proposed by Regional House of Representatives as long as it does not increase budget deficit

Paragraph (4)

Self-elucidating

Paragraph (5)

Self-elucidating

Paragraph (6)

Self-elucidating

Article 21

Self-elucidating

Article 22

Paragraph (1)

Self-elucidating

Article Paragraph (2)

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

Paragraph (3)

Self-elucidating

Paragraph (4)

Self-elucidating

Article 23

Paragraph (1)

Self-elucidating

Paragraph (2)

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

Article 24

Paragraph (1)

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

Paragraph (2)

Self-elucidating

Paragraph (3)

Self-elucidating

Paragraph (4)

Self-elucidating

Paragraph (5)

Self-elucidating

Paragraph (6)

Self-elucidating

Paragraph (7)

Self-elucidating

Article 25

Paragraph (1)

Meant by public fund management board in this Paragraph is not including the financial service company which have been regulated in the separated regulations

Paragraph (2)

Self-elucidating

Paragraph (3)

Self-elucidating

Article 26 Paragraph (1)

Paragraph (1)

Self-elucidating

Paragraph (2)

Self-elucidating

Article 27

Paragraph (1)

Article 27 Paragraph (1)

Self-elucidating

Paragraph (2)

Self-elucidating

Paragraph (3)

Self-elucidating

Paragraph (4)

The expenditures in this Paragraph shall include the expenses for emergency purpose which its criteria are stipulated in the Law on State Budget concerned

Paragraph (5)

Self-elucidating

Article 28

Paragraph (1)

Self-elucidating

Paragraph (2)

Self-elucidating

Paragraph (3)

Self-elucidating

Paragraph (4)

The expenditures in this Paragraph shall include the expenses for emergency purpose which its criteria are stipulated in the Regional Regulations on Regional Budget concerned

Paragraph (5)

Self-elucidating

Article 29

Self-elucidating

Article 30

Paragraph (1)

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

Paragraph (2)

The report of Budget Realization besides presents the realization of income and expenditures, it also explains the working performance of each state ministry/institution

Article 31

Paragraph (1)

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

Paragraph (2)

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

Article 32

Paragraph (1)

Self-elucidating

Paragraph (2)

In the case within period of 2 (two) months could not give the consideration as requested, the State Audit Board shall be considered have fully agreed on the governmental audit standards submitted by the Government

Article 33

Self-elucidating

Article 34

Paragraph (1)

The policy as meant in this Paragraph is reflected at the benefit/results which must be achieved by the implementation of the function and program of the state ministry/institution/regional government concerned