

**PUBLIC EXPENDITURE MANAGEMENT REFORM
IN INDONESIA: AN ASSESSMENT OF THE
ROLES OF THE TREASURY AND OTHER
INSTITUTIONS**

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ABSTRACT

The success of governments is often defined and judged by their management of public expenditure because it shows the policies, priorities and actions which they have taken. In view of the importance of sound expenditure management, the Government of Indonesia reformed the PEM system in 2003 and incorporated international best practices into its laws as a form of institutional isomorphism. This study has assessed the roles of the Indonesian Treasury and other key institutions in formalizing and internalizing these approaches for the period 2004 to 2009. In particular, it has examined the roles of the Treasury in supporting and applying performance-based budgeting, treasury single account, and accrual accounting.

By using a modified Bennett's (1975) hierarchy model and Allen *et al.*'s (2004) PEM assessment instruments, the processes and outcomes have been explored. Interviews with the reform initiators, policy makers and related stakeholders were conducted and questionnaire surveys to policy implementers were undertaken. The findings show that although the process contributed positively to the outcomes, generally the outcomes were less optimal due mainly to incomplete institutional arrangements, poor connectedness between functions, and uneven empowerment of key actors.

The study reveals that a concurrent linear iterative approach is essential when applying contemporary approaches to PEM. It is different from other proposed approaches to PEM, such as the two-pronged approach prepared by the World Bank (1998), a tortoise-hare approach developed by Campo and Tommasi (1999), the platform approach by Brooke (2003), and Peterson's (2007) evolutionary approach. Moreover, the study suggests the importance of getting the changing control arrangements right instead of Schick's (1998) sequential vertical controls. Control is not eliminated but shifted to other stages in the system, whether it is put as *ex-ante* control or *ex-post* control; the flexibility can be delivered to an entity, a unit, or an officer after certain controls have been developed. To effectively change, attention needs to be paid to the boundaries and functions of entity, the roles of the Treasury, the nature of financial transactions, and the delegation of authority from the Treasury to other financial officers or institutions. The role of the Treasury as a change agent is particularly significant during reform, not only to deliver treasury services but also to issue treasury regulations covering new institutional arrangements and to train related actors. The roles of other institutions in PEM will depend on the Treasury. Therefore institutional isomorphism in the form of *mimemisis* will not be successful if it only changes laws without also promoting wider understanding of the related concepts and practices. An indigenous developing country model, as identified by McCourt (2001), will be difficult to find. Nevertheless, legacy effects, as identified by Painter and Peters (2010), are likely to continue, particularly when awareness of the proposed changes is low and when the key actors are indifferent to reform. The most salient factor is the continuity of reform as a culture.

DECLARATION OF ORIGINALITY

I certify that this thesis does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any university; and that to the best of my knowledge and belief it does not contain any material previously published or written by another person except where due reference is made in the text.

Noor F. Achmad
Candidate

Date:...../...../.....

.....

I believe that this thesis is properly presented, conforms to the specification for the thesis, and is of sufficient standards to be, *prima facie*, worthy of examination.

Dr. Noore A. Siddiquee
Principal Supervisor

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.....

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GLOSARRY OF ACRONYMS

ADB	Asian Development Bank
APBN	The State Annual Budget (<i>Anggaran Penerimaan dan Belanja Negara</i>)
BAKUN	The State Accounting and Reports Agency (<i>Badan Akuntansi Keuangan Negara</i>)
BAPPENAS	The National Development Planning Agency (<i>Badan Perencanaan Pembangunan Nasional</i>)
BI	The Bank of Indonesia (<i>Bank Indonesia</i>)
BPK	The Supreme Audit Institution (<i>Badan Pemeriksa Keuangan</i>)
BPKP	The Financial Comptroller and Development Supervisory Agency (<i>Badan Pengawas Keuangan dan Pembangunan</i>)
CEO	Chief Executive Officer
CFO	Chief Finance Officer
COO	Chief Operational Officer
FMRC	Financial Management Reform Committee (<i>Komite Penyempurnaan Manajemen Keuangan Negara</i>)
GSC	General State Cash (<i>Kas Umum Negara</i>)
GFS	Government Finance Statistics
IFMIS	Integrated Financial Management Information System
KAR	Regional Accounting Office (<i>Kantor Akuntansi Regional</i>)
KASIPA	Financial Administration Office (<i>Kantor Verifikasi dan Pelaksanaan Anggaran</i>)
KPKN	Payment Verification Office (<i>Kantor Perbendaharaan dan Kas Negara</i>)
KPPN	Treasury Service Office (<i>Kantor Pelayanan Perbendaharaan Negara</i>)
MOF	The Ministry of Finance (<i>Kementerian Keuangan</i>)
PAN	The State Finance Accountability Reports in form of budget realization (<i>Perhitungan Anggaran Negara</i>)
PEM	Public Expenditure Management
RKP	The State Annual Plan (<i>Rencana Kerja Pemerintah</i>)
RKA-KL	The Work Plan and Budget of line ministry/agency (<i>Rencana Kerja dan Anggaran Kementerian /Lembaga</i>)
SAKIP	Performance Accountability System within governmental institutions (<i>Sistem Akuntabilitas Institusi Pemerintahan</i>)
TSA	Treasury Single Account

CHAPTER 1

INTRODUCTION

1.1. Background to the study

After the fall of Soeharto in 1998 and following a period of severe social and political instability in Indonesia due to the Asian financial crisis of 1997, the Habibie government realized the need for comprehensive reform to overcome accumulated problems inherited from the previous government. Change was urgently required even before the crisis but it did not happen due mainly to lack of political will and the relatively stable economic conditions during the Soeharto era. Following the crisis, the pressure for change became stronger both from within the country and from outside. High inflation, rapidly rising prices, increasing budget deficits, and the huge burden of public debt were among the powerful forces for reform from within the country, while pressures from international financial institutions and the quick recovery of other countries from the crisis added further strength to the demand for change. The government promptly used this timely momentum to push reforms focusing on the areas of economics, politics, social policies, and law¹.

To support economic reform, the government intended to change the management of public finance in general and public expenditure management in particular. Even though at that time conventional methods of public financial

¹ The medium-term national development planning (RPJM) 2004-2009, source www.bappenas.go.id

management existed, the government considered that sound practices were lacking in the management of public money. By developing a good financial management system, it was expected that fiscal burdens, such as huge interest payments and subsidies carried by the government since the crisis, could be reduced gradually and the effectiveness of government in the provision of public services and infrastructure could be enhanced. Moreover, financial structures could be made more resilient to fiscal shocks that might occur in the future. Proper public financial management was expected to support the government in achieving sustainable economic growth and development. Therefore the main objective of reform was to develop a sound financial management system by incorporating the principles of accountability, transparency, professionalism, and the use of external audit (MoF, 2002a p.1).

However, previous experience with the implementation of public financial management reform showed that the progress and outcomes were limited, especially when the roles and responsibilities of institutions remained unaltered. Partial changes at the operational level were not adequate to overcome structural weaknesses. To achieve the reform objectives, the government needed to focus on changing both the political and administrative aspects of public financial management.

From a political standpoint, the relationships between key institutions such as parliament, the central government, local governments, and the central bank needed to be rearranged. Given that the political environment had changed, the parliament, as the symbol of people's sovereignty, wanted more transparency and accountability from the government. The need to empower the parliament had increased, not only in regard to the preparation of the annual budget but also in monitoring the execution of the budget and evaluating government accountability. In relation to the monetary authority, the Indonesian government in general, and the Ministry of Finance in particular, have had

to adjust their roles since the Central Bank was declared to be an independent entity free of government intervention, particularly in the financing of budget deficits (BI, 1999). The lesson from the crisis of that time was that both institutions had to be strong guardians in setting and maintaining conducive macro-economic indicators. Furthermore, the people's expectation of better provision of goods and services stimulated the rearrangement of functions and finances between the central government, provincial governments, and districts/municipalities. This entailed intergovernmental fiscal balances to ensure the implementation of decentralization, de-concentration, and task-assistance policy. Therefore the synergies among key institutions in managing public money were seen to be essential for the promotion of economic development across the country.

In regard to financial administration, the focus was on the ways in which government institutions could better manage the approved budget allocations, deliver programs and activities, and account for the execution of the work plan and budget. In an attempt to improve performance, various approaches which had been applied in other countries were examined to see whether Indonesia could use them to produce better outcomes in public expenditure management. These approaches, such as medium-term expenditure frameworks, performance-based budgeting, treasury single account, and accrual accounting were then introduced to eliminate weaknesses and anomalies. In Indonesia, too, the implementation of new approaches to public expenditure management in the administrative sphere were expected to be more effective after new institutional arrangements were implemented. These approaches will be presented in greater detail in Chapter Two.

After reviewing many options the government proposed three major strategies for reform: namely enacting new laws and restructuring organizations, enhancing

institutional capacity, and developing a new PEM system (MoF, 2002a). The first strategy, the enactment of new laws, was the main priority because new institutional arrangements and various approaches to public expenditure management are usually incorporated into the laws. It was intended that all rules, regulations, and systems within public expenditure management would be adjusted afterwards. After much discussion and deliberation (see Appendix 1) the government finally promulgated several important laws²: the Public Finance Law, the Public Treasury Law, and the Public Audit Law. The Public Finance Law provides a framework for the political dimensions of the relationships between key institutions, particularly during the process of budget approval; it also emphasizes financial accountability to the parliament. The Public Treasury Law determines the framework for administration and management of treasury as well as financial matters within ministries and/or agencies in central and local governments. The Public Audit Law presents a framework for government accountability and for the role of the Supreme Audit Institution (BPK) as the only external audit institution for the government. These laws are expected to be an ‘umbrella’ for implementing better public financial management at all levels, including budget preparation, budget execution, reporting and accountability. Further discussion of the major strategies and their implementation will be presented in Chapters Three and Five.

One of the significant changes in the institutional arrangements is that these laws effectively decouple the ways that roles in managing public expenditure are balanced between the Finance Ministry and line ministries/agencies. Previously, the Minister of Finance, as the State Treasurer for controlling expenditure, was very powerful, with various rigid control mechanisms set into each expenditure process. As for the new

² The government proposed a package of new bills in 2000 to the parliament; Law number 17/2003 concerning the Public Finance Law, Law number 1/2004 concerning the Public Treasury Law, and Law number 15/2004 concerning the Public Audit Law were enacted then.

arrangement, on one hand, the function of the Minister of Finance as Chief Financial Officer (CFO) is to promote better cash planning, to avoid fraud and errors, and to look for alternative and cheap funds, and so to be more focused on treasury matters. On the other hand, the functions of line ministers as Chief Operational Officers (COOs) are to properly manage, control, and report their budget allocations (MoF, 2004a). The line ministers and their officials are expected to focus on the management of programs and activities in line with greater authority to manage their resources. These duties and responsibilities are supported by the implementation of new approaches to public expenditure management.

Following the enactment of these various laws the government was then required to support their implementation by issuing new rules and regulations and to reorganize the Ministry of Finance to accommodate the new functions. It has also been necessary to build the capacity of the Finance Ministry and line ministries and develop a new integrated and computerized financial management system to facilitate the new functions and responsibilities. At the time of writing some progress has been made, and to fulfil the new role of CFO a State Treasury Unit was established in 2004 under the Ministry of Finance³. By the end of 2008 a medium-term expenditure framework, unified budget, and performance-based budgeting approaches had been introduced to oversee budget preparation and execution, and to some degree these measures have been implemented successfully. The treasury single account has been implemented in cash management, although it only covers expenditure. Furthermore, the government has succeeded in presenting financial reports by using a double-entry accounting system, but full accrual accounting has not yet been applied. Further discussion concerning the implementation is presented in the later chapters.

³ Previously the treasury functions were scattered in several units within the Ministry of Finance such as the Directorate General of Budget, the Agency for State Accounting and Reports, the Centre for Debt Management. Since 2004 treasury functions have been consolidated into the Directorate General of State Treasury.

1.2. Statement of the problem

A variety of approaches were introduced concurrently into the system in Indonesia, and attempts have been made to strengthen the roles of the Finance Ministry and line ministries so that these institutions can be more professional, accountable, and responsive in the operational context. However, some common problems have continued to plague public expenditure management. These include inefficient cash management, unreliable financial accountability reporting, and lack of control of expenditure (World Bank, 2007a).

Even though the government has introduced treasury single account to some degree, cash management has been inefficient due to unconsolidated cash accounts, huge amounts of idle cash, inaccurate cash planning, and inadequate incentives for cash balancing. According to the BPK report, there were many unregistered and uncontrolled accounts within the State Treasury and line ministries, and these were not reported or consolidated into the General State Cash Account. These accounts amounted to approximately IDR 20.4 trillion (USD 2.2 billion) in 2006 (SAI, 2007b). Although later the Treasury was able to sweep all balance accounts in all treasury service offices since 2008, the amount of cash balances held by spending units was enormous⁴. Another problem was that although these accounts were registered the State Treasury was unable to use that money optimally. On the one hand, a huge amount of idle money deposited in the Central Bank and held in line ministries remained idle, but on the other hand the cost of government borrowing to cover budget deficits kept increasing over the years. In 2006 the amount of idle cash in the Central Bank was reported to be about IDR 60 trillion (USD 6.3 billion), and the idle cash balance within line ministries was around IDR 3.5 trillion (USD 0.37 billion) (Desai, 2007). A further problem was that the

⁴ There was IDR 1.46 trillion or USD 151.81 million held by spending units at the end of 2007 budget year, while the cash balance of the Treasury account in the Central Bank was only IDR 954.3 million or USD 99.4 million (SAI, 2008).

unreliability of figures and the lapse of time between cash receipt and disbursement plans and their execution hampered effective cash management as well (World Bank, 2007a).

Despite the success of government in presenting financial accountability reports, there is evidence of unreliable cash reporting because of inadequate cash disclosures. About 6.868 unregistered and uncontrolled accounts within the State Treasury and line ministries contained about IDR 20.4 trillion (USD 2.2 billion), but these were not reported; and because there were some unexplained cash figures in the State Financial Accountability Reports for 2006, the BPK issued a disclaimer opinion on the reports (SAI, 2007b). Indeed, on several occasions during the period 2004-2007 the Institution made disclaimer opinions on the reports citing lack of compliance with the public sector accounting standards and inadequate disclosure of financial data. Moreover, the target of implementing full accrual accounting in 2008, as mandated in the Public Treasury Law, was not accomplished. To enhance the reliability and accuracy of financial information the State Treasury has been developing its integrated and computerized systems since 2004⁵, but progress has been quite limited.

Although the decoupling of functions between CFO and COO was intended to empower line ministries, it apparently led, to some extent, to a lack of expenditure control. The segregation of functions lessened external control by the State Treasury, while the capacity of line ministries to control their expenditures internally has not yet been strengthened. Therefore the control of expenditure management within line ministries was relatively weak (ADB, 2004). Moreover, after several year of reform the level of budget absorptions within line ministries remained low; to illustrate, up until

⁵ The Government Financial Management and Revenue Administration Project (GFM RAP) as a project which is supported by the World Bank, the IMF, and other donors to enhance financial management in Indonesia was established in 2004 (DG Treasury, 2008g) Source www.gfmr.org.

the end of the first semester in 2008, line ministries absorbed only about 36% of the total state annual budget (Okezone: July 27, 2008).

All these problems demonstrate that the Ministry of Finance faced barriers to the implementation of the required changes. The decoupling of roles has not proved to be effective in practice, and multiple weaknesses and inconsistencies have been evident not only within the Ministry of Finance but also in related institutions. Therefore the reform objective, which was to promote better management of public expenditure in Indonesia, has not been achieved as expected.

1.3. Objectives of the study and research questions

The main purposes of this study are to analyse the new approaches to public expenditure management focusing on the key institutions involved and their respective roles and relationships, and to identify and analyse the major problems and limitations in terms of efficient and timely delivery of services and/or implementation of programs. This study also aims to assess whether the goals and/or values, such as professionalism, transparency and accountability in public expenditure management, have been realised.

In order to accomplish the aims of the study the following research questions will be addressed:

- How has the State Treasury transformed its institutional arrangements to promote transparency, accountability, and professionalism? What are the strategies to implement the approaches? What barriers have emerged in implementing the strategies?
- How effective are the practices of treasury management? To what extent has treasury management reform accomplished the reform goals? To what extent has the process of the reform contributed to the outcomes?

- To what extent does the organizational structure of the State Treasury support its roles, functions and services?
- How have line ministries and fiscal agents responded to the treasury management reform?
- How have human resources in the State Treasury responded to changes? Does State Treasury staff have the necessary knowledge, skills and qualifications to support the treasury's roles, functions and services?
- To what extent are rules, regulations and business processes adequate to manage the treasury system? How are rules, regulations and business processes harmonized between treasury functions?
- How effective is the cash management system? To what extent does the implementation of the treasury single account support the management of state cash? To what extent does the State Treasury control accounts, reduce idle cash, and utilize cash balance? To what extent does the cash advance management provide adequate flexibility and control?
- To what extent has the quality of financial accountability reports improved in recent years? What measures have been taken by the State Treasury in order to implement accrual accounting in government?
- To what extent has the State Treasury changed its control of line ministries in each treasury function area since reform? How effective have been the internal/managerial controls developed by line ministries since they were given more authority to manage their resources?

1.4. Methodology

To achieve the purposes of this study, a research framework showing the indicators of process and outcomes of the reform has been developed on the basis of the literature. Two sets of data have been collected, their analysis being detailed below. Primary data were obtained through interviews, focus group discussions, questionnaires, and observations. The selection of research techniques took account of the massive implementation of reform across the country and the limitations of time and budget. Secondary data were gathered from reports and journals, rules and regulations, and from policy studies related to public expenditure management in Indonesia.

The State Treasury, line ministries, and agents were the key organisations studied in this research, and participants from central, regional, and operational levels within these institutions were selected. Qualitative and quantitative analysis techniques were applied; a more detailed explanation concerning research design and methodology is provided in Chapter Four.

1.5. Significance of the study and its contribution to public policy and management

The present study is significant for a number of reasons. The benefit to the Ministry of Finance in particular is that the findings of this study will support the roles of the Ministry in managing public money effectively at the operational level; the effective utilization of public money is needed to support the sustainability of national economic growth, development, and the achievement of millennium development goals. It will also enhance the harmonization, synchronization and acceleration of new public expenditure management approaches and e-treasury which are being implemented concurrently. For other stakeholders this study will generate understanding and

knowledge of reform, minimize resistance to the reform, and support the reform implementation.

Furthermore, the study will contribute to current research concerning the shifting roles of State Treasury as the main central agency in public expenditure management. This study examines how the State Treasury is metamorphosing gradually from being a very dominant institution to one that tries to empower line ministries and allow them to manage their own resources, and how related institutions, including agents, are adjusting to their new roles in public expenditure management.

Another significance of this study is that it will contribute to the literature of reform in developing countries. It explains how the success of reform depends on the participation, awareness, knowledge, and skills of human resources within institutions. Last but not least, this study will contribute to efforts to combat corruption at operational levels. The balance of control between the State Treasury and the line ministries, the empowerment of line ministries to control their expenditures internally, and the presentation of informative financial accountability reports are all expected to minimize the opportunities for corruption and mismanagement.

In brief, this study is about the implementation of public expenditure management reform in a developing country - Indonesia. Current research in this area is scarce; therefore, this study will make a significant contribution to the limited knowledge in the field. The results of this study will be available to other researchers to study reform in Indonesia, and it will assist those who are working on the implementation of public expenditure management in other developing countries.

1.6. Scope and limitation of the study

This study focuses on one key objective of public expenditure management; that is, the efficiency of operational levels, excluding aggregate fiscal discipline and efficiency of allocation. The roles, rules, organization, and system of the State Treasury in Indonesia and its relationships with line ministries and agents are examined. Consequently, the scope of this study is limited to the specific roles of the State Treasury in managing treasury functions; in particular, budget execution, cash management, and accounting and reporting. This study does not cover other treasury functions such as debt management and asset management. Neither does it consider the role of the State Treasury in collecting cash receipts, although these issues will be discussed in brief.

Though government expenditure is classified into several types, not all of them will be studied. This study examines the three major types of expenses of line ministries: salaries and wages, goods and services, and capital and infrastructure expenditure. Other expenses such as subsidies, social benefits, transfer payments, and other or extraordinary expenditures are not covered in this study.

Due to the limitations of time and budget, it relies on a limited number of interviewees, questionnaire participants, focus group discussions, and observations. This study concentrates mainly on changes that occurred between 2004 and 2008, particularly those changes that came about in response to the new laws.

1.7. The structure of the thesis

This chapter has explained the background to the study, described the problems being addressed, and defined the aims of the study and the research questions concerning the roles of the State Treasury in managing public expenditure. The

approach to data collection has been mentioned briefly and it will be explained further in Chapter Four.

Chapter Two presents the conceptual framework that applies to public expenditure management and its processes. The relationships between related institutions, particularly between the finance ministry and line ministries, are discussed. Some approaches to public expenditure management that have been implemented in other countries are also presented.

Chapter Three explains public expenditure management, the roles of the State Treasury and other related institutions, and the practices that existed prior to the reform. It discusses some weaknesses of the previous practices and presents the reform, initiated in 2003, in terms of its principles, approaches, and general strategies.

Chapter Four discusses the approach to research design and methodology that was taken, explaining the reasons for choosing particular methods and techniques. This chapter also presents the logical framework of evaluation research. Chapters Five to Nine present and analyse the data, and Chapter Ten discusses several issues that emerged in regard to the control arrangements. The final chapter presents the findings with regard to public expenditure management in Indonesia, concluding with some recommendations including a proposal for a treasury reference model that might contribute to the study of other developing countries.

CHAPTER 2

PUBLIC EXPENDITURE MANAGEMENT & THE TREASURY: CONCEPTUAL FRAMEWORK

2.1. Introduction

The success of governments is usually measured by their management of public expenditure because it shows their policies, priorities and actions (Kroecker, 1978; Allen & Tommasi, 2001; DFID, 2001). Realizing the importance of sound expenditure management and the need to improve public services while managing fiscal imbalances and absorbing unpredictable fiscal shocks, governments around the world have made attempts to review their public financial management in general and public expenditure management in particular. Such reviews and reforms have brought about improvements to public expenditure management.

Before considering recent improvements, this chapter begins with the conceptual framework of public expenditure management and its key stages, particularly in treasury management. It then explores the roles and relationships between key institutions and the degree of controls, especially between the finance ministry and line ministries. This chapter concludes with several approaches to public expenditure management reform that have reportedly been successful in some developed countries.

2.2. Public Expenditure Management

There is no commonly agreed definition of public expenditure management in the literature, for historically it has been only the study of public finance. Fiscal studies were the essence of public finance, and many economists and fiscal analysts focused their studies in terms of fiscal and economic growth. Later, public expenditure itself was defined as one of many forms of government intervention designed to compensate for the failure of markets and to secure distributional equity (Chu & Hemming, 1991, p. 1). However, due to the varied results of structural adjustment programs, some studies in the late 1990s focused on the management of public expenditure rather than on public expenditure policies⁶. Potter and Diamond (1999) consider public expenditure management as the interactions between aspects of budget preparation, budget execution, and cash management so as to achieve fiscal discipline in the control of aggregate expenditure, effective resource allocation and efficient service delivery. Lately, DFID (2001) defined public expenditure management [referred to hereafter as PEM] as the way in which public resources are allocated and managed in pursuit of fiscal discipline, strategic prioritization and achievement of value for money. Most authors agree that PEM has three main objectives (Table 2.1):

Table 2.1 Public Expenditure Management - Objectives and Phases

Objectives	Phases
Aggregate Fiscal Discipline	<u>Budget Preparation</u>
Allocative Efficiency	<ul style="list-style-type: none"> • Macroeconomic forecasting • Budget preparations process • Budget approval
Operational Efficiency	<u>Budget Implementation</u>
	<ul style="list-style-type: none"> • Budget documents • Budget Execution • Cash management • Accounting & Reporting

Source: Adapted from WB, 1998; DFID, 2001; Allen & Tommasi, 2001

Aggregate fiscal discipline means that public expenditure should be in line with the framework of the macroeconomic goals that are set in advance. Indicators such as

⁶ See Potter and Diamond 1999 p.1; Allen and Tommasi, 2001 p.19

the level of budget deficit, public debt ratio, and emergency funds are determined before the annual budget is prepared (Campo & Tommasi, 1999; Allen & Tommasi, 2001). Many developed countries present macroeconomic indicators in a medium-term framework of 3-5 years as a guide for annual budget preparation. Determining the length of term depends on the ability of the country to predict the economic conditions in the medium term. In most developing countries such a medium term projection is still too distant to be workable because of the country's unstable macroeconomic situation, high inflation rate, unpredictable national revenue, pressure to spend more, and dependency on external funds (DFID, 2001). However, Schick (1998a) notes that during implementation, the realization of aggregate fiscal discipline can move up and down though the medium-term targets should be fixed and attainable. This shows that aggregate fiscal discipline is a salient feature of sound PEM, but the mechanisms by which developing countries can set and maintain discipline need to be studied further.

Efficiency of allocation emphasizes that due to the scarcity of resources, government expenditure should be effectively allocated to sectors by considering medium-term plans, the productivity of sectors, and the balance between sectors. However, inefficiency of budget allocation occurs in many developing countries due to a lack of comprehensive planning and an inability to measure the priority of programs and activities. Both aggregate fiscal discipline and allocative efficiency are achieved at the budget preparation phase, which requires a finance minister to be strong when discussing budget proposals with line ministers and in interactions between the executive and legislative branches in order to issue the annual budget law (Schick, 1998a; Campo & Tommasi, 1999; Allen & Tommasi, 2001).

One major objective emphasized in the recent literature is operational efficiency, meaning that the budget allocated to line ministries and spending units should be fully

utilized to provide the goods and services needed by the public (Premchand, 2005). Therefore spending units set performance indicators and targets as criteria to control the utilization of funds. In contrast to the two previous PEM objectives, operational efficiency needs to be achieved at the budget implementation phase. However, optimal operational efficiency can be attained as long as government properly manages budget execution, cash management, and accounting and reporting. A number of obstacles that can occur to this in developing countries will be discussed in Section 2.3. These three objectives are interdependent and governments need to pay adequate attention to each of them (World Bank, 1998). In many developing countries, governments still struggle to maintain aggregate fiscal discipline before shifting the focus onto allocative efficiency and operational efficiency. For most developed countries, aggregate fiscal discipline is not a significant matter and attention given to other objectives can be more relevant to their countries' conditions and needs.

Public expenditure management is divided into the two major phases of budget preparation and budget implementation. Some studies regard cash planning and management (Potter & Diamond, 1999) or accounting (Premchand, 2005) as independent phases. In this study, cash management and accounting are treated as an integral part of the budget implementation phase because of the intense interactions among elements at this phase and the comprehensiveness of expenditure evaluation.

The first phase of PEM is budget preparation, which commences with planning and setting macroeconomic targets and ends with enactment of the budget law. In many systems, sequences and timetables are set in advance and this guidance should be followed as a due process before the beginning of the new fiscal year (Campo & Tommasi, 1999; DFID, 2001). Forecasting the macroeconomic outlook, determining affordable total government expenditure, sending out a budget circular inviting bids

from line ministries, preparing and submitting budget proposals, reviewing and negotiating budget proposals, and approving budget appropriations by parliament are some stages of budget preparation (Allen & Tommasi, 2001), but the practice in each country varies depending on the system of government and the relative roles of finance ministers and parliament (Potter & Diamond, 1999). To support the effectiveness of the budget preparation phase, the roles between key participants, such as executive and legislative institutions, the finance ministry, and line ministries, should be made clear so as to provide optimal interactions. At this phase, systems can be developed to support the achievement of PEM objectives such as a macroeconomic forecasting information system and budget preparation and approval information systems (Hashim & Allan, 2001). However, some anomalies are commonly found at the budget preparation phase due to short-term budgeting, the lack of evaluation of previous and current budget realization, unconsolidated extra-budgetary funds and off-budget accounts, and the lack of data on quasi-fiscal activities (Schick, 1998a; DFID, 2001).

After the annual budget is approved, the budget implementation phase should be managed properly, this being a process in which line ministries and spending units utilize their budget allocations to provide goods and services, reporting this to central agencies or to the finance ministry (Campo & Tommasi, 1999). In this phase, the discussion will focus on how spending units manage their inputs to produce outputs leading to expected outcomes. The finance ministry manages cash in order to support line ministries and spending units delivering goods and services. Line ministries and the finance ministry have to record all transactions in order to present an accurate financial report - an important form of accountability. In addition, some systems, such as the budget execution system, the cash management system, and the accounting and fiscal reporting system should be developed (Hashim & Allan, 2001).

The recent literature on public expenditure focuses more on the system of cash management because of the importance of timing, amount, and value of resources (Campo & Tommasi, 1999; Potter & Diamond, 1999; Allen & Tommasi, 2001; Hashim & Allan, 2001), but the implementation of a good cash management system needs strong support from a sound budget execution system and from effective accounting and reporting systems. Therefore the interactions between the systems are integrated into a treasury management system. These interactions are pulled together in order to demonstrate comprehensively the synergy of stages and of processes and systems, in fulfilling the objectives of operational efficiency. The following section presents these stages of PEM.

2.3. Key Stages of PEM

Table 2.2 The sequences of budget execution, cash management and accounting

Budget Execution	Treasury Management	
	Cash Management	Accounting
<ul style="list-style-type: none"> • Approval of budget document as authority to spend • Commitment • Payment verification • Payment 	<ul style="list-style-type: none"> • Budget implementation plan and cash plans • In-month forecast & revised forecast • Manage cash surplus/shortfall • Cash limits (option) 	<ul style="list-style-type: none"> • Maintain records of appropriation and warrants • Record, validate, post, and list all transactions • Maintain ledger accounts • Consolidation & Reporting

Source: Adapted from Potter & Diamond, 1999; Allen & Tommasi, 2001; Hashim & Allan, 2001

As mentioned above, broadly, public expenditure management has two major phases; budget preparation and budget implementation. These phases are supported by several essential stages of PEM. Because this study focuses on treasury management at the budget implementation phase, it covers all the processes of budget implementation which includes budget execution, cash management, and accounting and reporting (Table 2.2). Budget preparation will not be discussed here because it is beyond the scope of this present study.

2.3.1. Authority to spend

After the annual budget law has been approved by parliament, line ministries have authority to spend money (in theory at least) according to the appropriation for programs or economic classifications. But in many systems governments still need to convert these budget appropriations into detailed budget documents. A budget document or warrant document, is prepared as an authority to line ministries or to spending units to utilize resources for the provision of goods and services for the current year (Campo & Tommasi, 1999, Allen & Tommasi, 2001). The types of document vary depending on the treasury system and the extent of controls imposed in each country; the format and detail of budget documents are influenced by the implementation of performance-based budgeting, classification of accounts, and cash planning (Premchand, 1993; Hashim & Allan, 2001). The document should be in line with the performance targets that are allotted to each spending unit, and should show the interaction among functions of PEM. Primarily, the budget document is a tool to control expenditure, in which commitment, payment, and accounting of each transaction should be in line with the detailed accounts (Hashim & Allan, 2001). Every change in the accounts must be approved by the finance ministry; as a consequence, the more detailed the accounts the less flexible the execution of the budget. On the other hand, the more detailed the accounts, the more informative the presentations of reports. Section 2.5 discusses how detailed the accounts should be and what performances should be imposed.

2.3.2. Commitment

On the basis of the budget document, a spending unit can carry out contracts to provide goods and services, with invoices to be paid later. Good management of budget execution should record all commitments in order to show what payments will be

claimed and when government should prepare and pay them (Allen & Tommasi, 2001). The important issue here is how the government, finance ministry, or spending unit can provide appropriate assurance to other parties providing services and goods that the commitments will be paid on time. The inability of government to pay increases the accumulation of payment arrears (Potter & Diamond, 1999). In principle, payment arrears should be eliminated or minimized in sound public expenditure management. However, some systems are not able to record the commitments and in other cases it is the responsibility of the spending unit rather than the finance ministry to keep these records. The need for a commitments record can be minimized if a country has abundant cash resources. In a good treasury system, the finance ministry can assure spending units that all activities can be financed as long as fiscal shock does not occur; it is the responsibility of the ministry to manage all financial resources needed. But the system should also have the capability to easily adjust all allotments of spending units in accordance with macroeconomic conditions (Premchand, 1993). Macroeconomic fiscal shock or fiscal stress due, for example, to increasing prices of oil, natural disasters, or the changing of entitlements, should be quickly adjusted at operational levels. In some countries it takes time to do this, hampering the activities of spending units.

2.3.3. Verification

Commitments being made, providers deliver goods or services. At the verification process, the spending unit should check whether or not goods or services have been delivered as stipulated in the contract. Spending units should verify the amount and quality of the goods or services and also check the accuracy of invoices. After goods and services have been delivered, items are verified, bills are accepted, and then the spending unit prepares a payment order for the finance ministry (Hashim &

Allan, 2001). Spending units need to establish adequate check and balance mechanisms in order to fulfil all tasks, particularly checking the ordering and receipt of goods and services. The issue here is the extent to which the capabilities of spending units permit proper verification mechanisms.

2.3.4. Payment authorization or payment order

In many countries, the body that authorizes payments is different from the one that receives the goods and services; or it can be in the same institution but with its functions carried out by a different division (Allen & Tommasi, 2001). Payment orders are prepared after goods and services have been received. If spending units hold a certain amount of money, the payment order is checked, usually by another unit or financial officer, to verify that it is within spending limits, and then a cheque is issued. Otherwise, if spending units do not hold money the payment request will be sent to the finance ministry for verification. However in some systems, cash rationing is imposed on payment orders. Although goods and services have been rendered, a payment order will be issued only on the basis of the availability of allocated money. The implementation of cash rationing in some developing countries leads to delays in the issue of payment orders, or else the payment order is issued but then delayed at the spending unit or finance ministry (Potter & Diamond, 1999). The consequence is that this leads to an increase in payment arrears. Instead of imposing cash rationing, a treasury system should be developed that can guarantee the availability of money or adjust spending unit activities based on the availability of resources.

2.3.5. Payment

Payment is the process of transferring money from the finance ministry or spending unit to the provider or beneficiaries. In many countries, the finance ministry verifies payment orders that are sent by spending units. Payment verification by the

ministry is an attempt to check whether the payment order is within budget ceilings, the classification of accounts is correct, the document has been properly signed by authorized persons, and the order is supported with adequate documents (Hashim & Allan, 2001). The payment order is paid either in cash, cheque, or electronic transfer to the receiver's bank account. However, this requires the ministry to manage the availability of cash (Campo & Tommasi, 1999). In some systems, miscellaneous expenses are paid out of petty cash held by the spending unit (Hashim & Allan, 2001). Those expenses are reported to the ministry and subsequently the ministry will refund some amount of money into the spending unit account. The expenses are deducted from the budget ceiling of the spending unit. However, the interaction of the finance ministry and line ministries or spending units in cash payment and petty cash management should follow the principle of minimizing idle cash. Some issues concerning the payment process need to be discussed further, and these include the level of treasury verification, the supplementary documents that should be enclosed, the amount of petty cash held by spending units, and alternative payment mechanisms.

2.3.6. Cash planning and management

The core function of treasury management during the budget implementation phase is planning and managing cash efficiently and effectively. Periodic cash planning and management are intended to determine the demand for cash, to provide cash in a timely manner, and to optimise the use of cash shortfalls or surpluses (Allen & Tommasi, 2001). Cash planning can be derived from annual budget appropriations by dividing them into monthly revenue and expenditure forecasts (Campo & Tommasi, 1999). In some developed countries, daily or weekly revenue and expenditure forecasts are available, but in any case revised estimates should be conducted regularly in order to permit up-to-date cash planning (Hashim & Allan, 2001). To provide sound cash

planning, the treasury office should constantly coordinate, with other institutions, such as the budget office, the tax office, and line ministries, all of which provide treasury with data. However, in some simplified systems the finance ministry controls only those line ministries that have very large budget allotments. The ministry also takes into account the trends of the receipt and payment figures from previous years.

In order to achieve good cash planning, the finance ministry works with the central bank to manage cash shortfalls and surpluses. The minimum balance of the government account is set by the central bank, and this is used as a basis for determining the fluctuations of the cash balance. When a cash shortfall occurs the finance ministry can issue treasury bills or other legal short-term instruments. When there is a cash surplus, the excess can be put into profitable short-term investments (Campo & Tommasi, 1999). The amount and period of cash surpluses or deficits determine the type of instrument that is chosen. Inadequate management of cash is a motive for many countries to develop and reform their treasury systems in general and cash management in particular (Hashim & Allan, 2001). Inevitably, cash management is the essence of the treasury system. Cash management is intended to support fiscal discipline, to support line ministries and spending units in the delivery of their activities, and to maintain the cash balance in the treasury accounts. However, many developing countries have not yet developed professional cash management because they are still struggling to control their line ministries and spending units, usually by cash rationing and budget cuts (Allen & Tommasi, 2001). A good treasury system will be able to shift from cash control to cash management, but it needs the finance ministry to have a good relationship with the central bank as the fiscal agent, and it requires coordination between them.

2.3.7. Accounting

All government transactions should be recorded and reported. Therefore it is imperative to develop appropriate accounting systems. The core functions of accounting are the maintenance of records of spending authorization on budget documents, the recording of all transactions, maintenance of financial ledger accounts, and the presentation of reports (Allen & Tommasi, 2001). The mechanism for recording transactions varies in each country depending on the role of the finance ministry, the basis used, the number of accounting and reporting entities, and the scope of government transactions. In some countries, accounting and reporting are the main responsibility of the finance ministry. In countries that give more discretion to line ministries, it is their responsibility to maintain accounting and reporting, while the finance ministry is responsible only for cash reports and consolidated reports (Hashim & Allan, 2001).

In order to present financial statements that are similar to reports in the private sector many countries have adopted dual-entry rather than single-entry accounting. A balance sheet, cash flow statement, budget realization report, and other reports can be produced with the dual entry system (Campo & Tommasi, 1999; Torres, 2004). In recent reforms, a small number of countries have tried to move from cash-based to accrual-based accounting. New Zealand and Australia have achieved success in the implementation of accrual accounting even though problems of presentation occurred initially at the national level (Atkinson & Noord, 2001; Wanna *et al.*, 2003). Accounting and reporting are linked to cash planning and management, particularly the cash flow statement which is used to analyse flows of money in operating, investment, and financing activities (Hashim & Allan, 2001). In order to produce reliable and accurate financial reports an accounting system must be supported by an adequate chart of

accounts, accounting standards, and periodic reconciliation of financial data (Allen & Tommasi, 2001; Torres, 2004).

In principle, every financial transaction should be recorded and the report presented, but in many developing countries this is still difficult to accomplish because it entails an efficient and sophisticated treasury system. Another challenge is how to present informative non-financial reports, an issue that emerges due to the implementation of performance-based budgeting. Non-financial reports should show the progress toward the achievement of outputs and outcomes; but whether or not the reports should be consolidated with financial reports is another issue that needs to be examined. All stages are accommodated when developing a treasury system. However, before developing a treasury system, the relationships between the finance ministry and other related institutions should be clearly defined.

This section has presented the sequence of PEM process at the operational level which starts from authorization, commitment, verification, to payment. However, literature whether concerning PEM objectives (Schick, 1998a) or the sequential process (Chu & Hemming, 1991; Allen & Tommasi, 2001) does not underline what actually is managed in PEM. Even though at the operational level, mainly PEM manages financial transactions it raises a question whether all financial transactions have similar characteristics so that sequential process, as noted above, can be applied well and whether all types of transactions have neutral impact to the objectives of PEM. Therefore it is argued that if the nature of financial transactions varies due to different purpose, intention, level of urgency, predictability it seems that similar treatment for all transactions should be reconsidered again. Moreover, it suggests that once PEM as the object has been identified well, the roles and the relationships between actors who

manage financial transactions can be set clearly in order to accomplish the chosen objectives.

2.4. Key Actors, Roles and Relationships in PEM

The success of public expenditure management, particularly treasury management, requires the clear demarcation of roles and intensive interaction between the key institutions (Schick, 1998a). The finance ministry, line ministries and the central bank are the major actors in any treasury system, but each country has specific institutional arrangements that depend on the governmental structure. In this section, the interaction between key institutions will be identified and the extent to which their changing roles can affect the level of controls will be discussed.

2.4.1. Finance Ministry

In many countries, the finance ministry, as the nation's fiscal authority and treasury, has a major role in initiating and imposing public sector reform, even though in some cases the reform itself may change the roles of the ministry in managing public finances (Jensen, 2003; Wanna & Bartos, 2003). Therefore the roles of finance ministries in the management of public expenditure are crucial in respect of all objectives and phases (Allen & Tommasi, 2001). A strong finance ministry is needed for the aggregate control of fiscal discipline, particularly to handle fiscal shock and respond to demands for more spending from parliament and line ministries. The finance ministry should work hand in hand with the monetary authority to keep macroeconomic conditions conducive and to remain in line with a medium-term economic framework. Moreover, a strong role for the ministry is essential for efficient allocation, particularly to distribute the budget between sectors and to discuss budget requests – which tend to increase incrementally from previous budget allotments and are also claimed as high priorities.

Schick (1998a) notes that, at the operational level, the roles of line ministries and spending units are more salient, and this might suit countries such as New Zealand that have adopted a system of agentification. In most developing countries the roles of the finance ministry as the treasury are still dominant in the budget implementation phase (Campo & Tommasi, 1999). Functions of the treasury at this phase include:

- maintaining cash inflow and cash outflow effectively and efficiently;
- controlling the release of funds, and monitoring progress on budget implementation;
- supporting line ministries or spending units to deliver service and ensure predictable funding, and
- utilizing or borrowing cash balances professionally (Allen & Tommasi, 2001).

The function of the treasury in maintaining cash flow should be consistent with aggregate fiscal discipline and revenue forecasting (Schick, 1998a; Hashim & Allan, 2001). The programs and activities of line ministries have to be adjusted if the realized revenue is below target. In order to control expenditure and to adjust budget ceilings of programs and activities, a proper treasury system should be developed. In some countries, governments are not permitted to borrow money from the central bank, and where overdrafts are permitted conditions and limitations should be applied, forcing the treasury to manage cash, including shortfalls or surpluses, more professionally (Campo & Tommasi, 1998). However, it needs new skills in the treasury as an institution to evaluate the values and risks of securities in the financial market.

2.4.2. Line Ministries or Agencies

Given that the current focus of public expenditure management is on outcomes, each line ministry should specify the outcomes and outputs to be achieved (Premchand,

1993; Allen & Tommasi, 2001). These are the salient elements in contracts between government and line ministries, and between line ministry and spending units or agencies. However, determining appropriate outcomes and outputs is still difficult in many developing countries because of the existing structure of institutions and the prevalence of joint outcomes. In addition, the determination of outcomes and outputs leads to the restructuring of institutions in each ministry. Therefore the institution responsible for achieving particular outputs or outcomes should be clearly identified, but in many countries various outcomes, such as poverty reduction, order and safety, or curbing of corruption, are produced jointly by several institutions. It is not straightforward to identify outcomes, although outputs can be easily identified. The cascading performance approach would be an appropriate approach to develop clear responsibilities for outcomes and outputs based on the structure of institutions (Premchand, 2005).

To achieve the targeted outcomes and outputs, line ministries set programs and activities to be delivered. The treasury will subsequently disburse money to finance these programs and activities; however several problems still emerge in practice. According to Premchand (1993), each program should be supported by appropriate data on productivity, unit cost, and other indicators of efficiency. It remains difficult for developing countries to present these data, particularly when full costing is not available (Hashim & Allan, 2001); but this can be done if accrual-based accounting is implemented. As a consequence, line ministries or agencies should be accountable for the development of programs and activities and for the resources used in their delivery (Allen & Tommasi, 2001). In practice, periodical accountability reports are delivered to the central agency, i.e. finance ministry. However, as mentioned earlier, there is still debate about which institution carries the main responsibility for monitoring the

performances of line ministries and agencies (Wanna & Barton, 2003). In many systems, performance reports from line ministries and spending units are required by several bodies, such as the planning agency, the budget office, the auditor, and the Treasury.

2.4.3. The Central Bank

As the monetary authority the central bank has responsibility for providing good economic indicators so as to support the finance minister in maintaining overall fiscal discipline (Schick, 1998a). Inflation, interest on borrowing, and the volume of circulated money are monitored. The central bank is also a fiscal agent of government, especially in support of the treasury system. The treasury needs to work in close coordination with the central bank in managing cash, especially the cash balance that is held by the central bank. In the recent development of a treasury single account, the treasury relies on the central bank to sweep all balances in subsidiary accounts into the treasury single account and to support the treasury in maintaining the minimum balance (Allen & Tommasi, 2001). Furthermore, the central bank supports government in issuing certain borrowing securities, such as treasury bonds or treasury bills, whereas in some countries the issuing of government securities is the responsibility of the treasury (Campo & Tommasi, 1999), depending on the relationships between government and the central bank and, particularly, the capacity of the finance ministry to be a main driver.

Therefore the relationships between the key bodies in treasury management will depend on the institutional arrangements in each country, these arrangements being influenced by the extent to which public expenditure management reform has been implemented. Relationships, particularly between the treasury and line ministries, will determine the level of expenditure control.

2.4.4. Relationship between key institutions, the balance of power and the mechanisms of control

In this section, the changing relationships between institutions, particularly between the treasury and line ministries, will be examined further. As a central agency, the treasury has a role different from that of line ministries, but the recent progress of public management reform has catalyzed the clear separation of roles between institutions (Schick, 1998a). The introduction of horizontal and vertical approaches to public management, through managerialism and agentification, has led to some adjustments in public expenditure management (Hesse *et al.*, 2003), although Stern (1997) doubts whether lessening the control of the treasury through these approaches can enhance the effectiveness of public expenditure management. A horizontal approach to public management leads to the independence of line ministries as budget and accounting entities (Wanna *et al.*, 2003) and even creates substantial policy coordination challenges (Manning *et al.*, 2008). On the other hand, in many cases the vertical approach causes a decrease of control of spending units by the treasury (Christensen & Laegreid, 2007). However, some researchers (Jensen, 2003; Jensen & Wanna, 2003; Flinders, 2005) argue, for the treasury, the rebalancing of power and control means that some substantive activities might be reduced but new responsibilities emerge, such as ensuring the quality of financial data, monitoring performance, and implementing and controlling the reform of line ministries and spending units, particularly when decentralization and agentification become reform agendas. It suggests the importance of exploring new power and control arrangements in reform as a further consequence of changing relationships between institutions.

Despite general agreement about the importance of control in public expenditure management, there is, surprisingly, no consensus concerning control terminology. Premchand (1993) emphasizes that control amounts to monitoring the process of setting

targets so as to achieve major outcomes. But Das and Teng (2001) define control as a regulatory process by which the elements of a system are made more predictable through the establishment of standards in the pursuit of some desired objectives. Interestingly, Reed (2001) sees control as a co-coordinating mechanism based on asymmetric relations of power and domination, in which conflicting instrumental interests and demands are the overriding contextual considerations. It is important to note that the asymmetric relationships identified by Reed imply that there is asymmetric information between parties.

Other writers see the relationships between the treasury and line ministries as being like a non-equity alliance⁷ in the public sector (Das & Teng, 2001). They note that in each alliance relationship the issue of control will be in line with the risk, whether the risk is performance-related or behavioural. According to Stern (1997), control is exerted to reduce the risks arising from this asymmetry. However, the level of control should be readjusted if the degree of risk changes due to internal or external factors (Flamholtz *et al.*, 1985; Dekker, 2004). In many developing countries the treasuries are still not convinced of the capacity of line ministries to handle public expenditure, so they impose many procedures to control expenditure (Premchand, 2005). Line item budgeting is an example of such a practice; in this the treasury considers that the risks of fraud and error are so high that the control of the treasury over line ministries should be high as well. Even Schick (1998a) emphasizes this relationship between the treasury and line ministry as a controller and controlee relationship. Therefore all this suggests that potential risks should be reduced. In order to minimize risks specifically, Flamholtz *et al.* (1985) propose to set *ex-ante* and *ex-post* control in the system. This shows that control should be viewed as a network between two or more parties in which several

⁷ Das & Teng (2001) study the types of alliance in the private sector which is divided based on the share of equity. They divide strategic alliance into joint ventures, minority equity alliances, & non-equity alliance.

techniques are used to ascertain whether actions are undertaken in pursuit of the objectives.

Figure 2.1. Balance of Power between the Treasury and Line Ministry

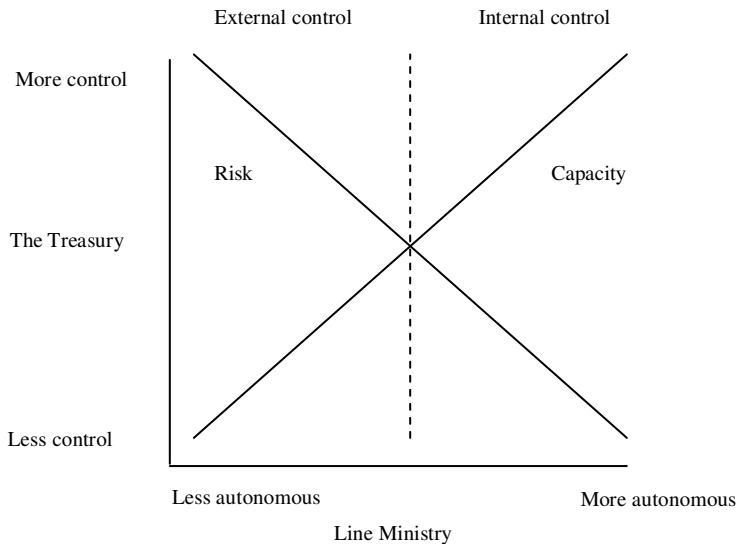
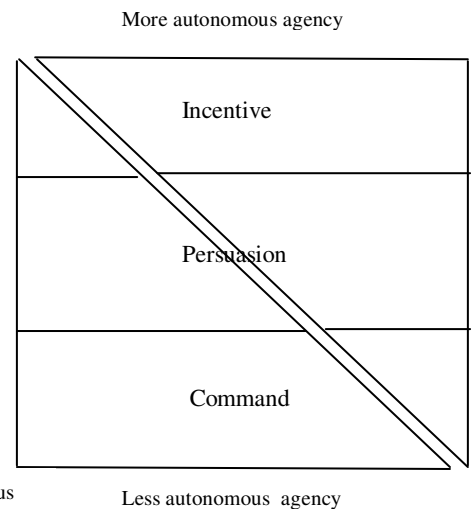


Figure 2.2. Type of Controls and Institutions



Source: Adapted from Campos & Pradhan, 1997; Schick, 1998a; Das & Teng, 2001; Norman & Gregory, 2003; Lodge & Wegrich, 2005

Figure 2.1 shows that one of the ways to reduce risks is by enhancing the capacity of controlled institutions, meaning that if developing countries want to increase the autonomy of line ministries, or at least to gradually give them more flexibility, their capacity to manage outcomes, outputs, and inputs should be strengthened as well. The more autonomous an institution, the less control is conducted externally. This means that treasury will release its control gradually as line ministries or agencies become more autonomous. On the other hand, line ministries and agencies should develop more sophisticated internal controls. However, besides internal control, Schick (1998a) emphasizes that an appropriate external control, as a basic right⁸, should be in place sequentially before a country moves to a greater degree of autonomy for line ministries and implements agentification. Moreover, for agentification, he underlines the concept of managerial control, which should be strengthened when an autonomous agency is established.

⁸ See DFID 2001 p.46 ; Allen and Tommasi 2001 p.26

In practice, the implementation of expenditure controls varies. Premchand (1993) explains that control can be implemented through command, persuasion, or incentives (Figure 2.2), but some literature describing recent progress in public management maintains that the use of incentives is the most effective form of control (Schick, 1998a; Norman & Gregory, 2003; Lodge & Wegrich, 2005); the more autonomous the institution, the more incentives should be provided. According to Schick (1998a) there are several types of incentive which can be applied to enhance operational efficiency: the use of efficiency dividends, managerial freedom over running costs, control of outputs, and audit or review of performance. For example, Australia imposes the practice of carrying-over some operational budget to the following fiscal year, while New Zealand implements capital charges in order to increase the efficiency of asset utilization in line ministries and spending units (Allen & Tommasi, 2001). However, these kinds of incentive also need sound accounting records in order to know the exact value of assets held in each line ministry or spending unit (Hashim & Allan, 2001). This indicates the important role of treasury in setting the appropriate type of controls in general or incentives in particular within expenditure system.

The treasury should ensure that control mechanisms are inherent in the system, in the sequence of business processes, and in verification of transactions (Hashim & Allan, 2001). At the operational level, every type of control should be implemented in each PEM process and in each subsystem that is developed. Changing controls definitely changes the operation of the law. Treasury regulations and procedures should include document and transaction-level controls, access controls, and system controls. Document and transaction controls ensure that each transaction is correctly recorded and also provides an adequate audit trail. Access control ensures that only authorized

personnel can execute, record, and adjust transactions. System control means that some validations and controls are embedded in the system (Campo & Tommasi, 1999; Hashim & Allen, 2001). Therefore a treasury system, particularly when implemented as an e-treasury system, should cover all types of control.

Theoretically changes of discretion and control can occur when governments apply some of the approaches to public expenditure management; the shifting degree of control can be seen even during implementation of each approach. According to Manning *et al.* (2008, p.28) the logic of the reform trajectories reflects a move from simpler to more complex forms of control and coordination between actors. Consequently, to shift the present equilibrium by the changing roles of actors into the new one, as acknowledged by Stevens (2004), is really challenging. In addition, in terms of segregations and reforms, Pollitt and Bouckaert (2004) argue that vertical and or horizontal dispersion of authority, to some extent, influences the breadth of scope, uniformity, intensity, and width of reform. The following section will discuss some recent approaches to PEM.

2.5. Approaches to PEM and Contemporary Reforms

Table 2.3 Public Expenditure Management Approaches

Traditional approach	Contemporary approach
Process oriented (rules & procedures)	Comprehensive Public Financial Management Law
Centralized budget	Output & Outcome oriented
Line item budgeting	Managerialism & Agentification
	Performance based budgeting
	Treasury Single Account (TSA)
	Adoption of Government Finance Statistics (GFS)
Cash accounting	Accrual accounting
Control compliance	Control performance
	Integrated Financial Management Information System (IFMIS)

Source: Adapted from WB 1998; Potter & Diamond 1999; DFID 2001

Although governments impose various public expenditure controls, such as rule compliance, an input-based centralized budget, and a one-year budget perspective, the objectives of PEM are often not achieved as intended (Schick, 1998a; World Bank,

1998). Some drawbacks of these approaches include lack of anticipation of the future costs of current policies, and lack of focus on outputs and outcomes. Moreover, input-oriented and centralized authority engenders in managers a lack of initiative and responsiveness as well as rigid budget execution (Potter & Diamond, 1999; DFID, 2001). To overcome these weaknesses the most popular approaches to PEM are performance-based budgeting, treasury single account, and accrual accounting (Table 2.3).

2.5.1. Performance-based budgeting

One approach with a major impact on the management of public expenditure is performance-based budgeting. The basic concept here is to allocate resources on the basis of expected performance, with each increment in resources linked to a specific increment in output (Schick, 1998a). Line ministries and spending units should define what outcomes and outputs will be delivered, and then the finance ministry will evaluate and determine their cost of production. Therefore resource allocation is based on the volume of targeted outputs; spending units thus have a great deal of freedom in utilizing the resources so as to achieve their targets (Premchand, 2005). This approach seeks to overcome some of the weaknesses of line-item budgeting which allocates funds and uses resources based on input classifications.

In developing countries, some prerequisites need to be fulfilled before introducing performance-based budgeting; in particular, a performance culture needs to be developed in order to raise awareness of performance across all government services. Moreover, it is imperative to standardize the costing of outputs from activities. Malaysia, Singapore, and several other Asian countries have adopted varieties of performance-based budgeting, albeit with uneven results (DFID, 2001). Essentially the implementation of performance-based budgeting should be in line with the development

of an accounting system, specifically an accrual accounting system, for calculating the full cost of outputs (Premchand, 2005). The funding mechanisms on an outputs or outcomes basis should be anticipated by the treasury in developing a cash management and treasury system.

2.5.2. Treasury Single Account

In order to minimize borrowing costs and maximize interest-bearing deposits, centralized cash balances through a treasury single account is recommended (Campo & Tommasi, 1999). According to Tanberg (2005), this approach has major benefits, particularly in terms of financial control and promoting efficiency and cost-effectiveness. Even Pattanayak and Fainboim (2010) emphasize that the approach facilitates better fiscal and monetary policy coordination.

Technically, this approach is applied by sweeping all daily cash balances into a single account, usually at the central bank, but there are various types of mechanism in use. Campo and Tommasi (1999) segregate these into two types of treasury single account: active centralized treasury single account, and passive treasury single account. In the first type, all payment requests are sent and approved by the treasury; in the second, payments are by spending units, although all are through treasury single account. The important point is that all government bank accounts should be integrated into a treasury single account. Pattanayak and Fainboim (2010) emphasize three features of this approach; namely the unification of all banking arrangements, oversight of all bank accounts, and comprehensive all-cash resources. Therefore the structure of the treasury and the sophistication of the banking system contribute to the implementation of the approach (Campo & Tommasi, 1999; Tanberg, 2005).

2.5.3. Accrual accounting

There are no major weaknesses of the cash accounting system; nevertheless, some developed countries have attempted to apply accrual accounting in the public sector, expecting that it can present more information on assets and liabilities, provide incentives for greater efficiency, reduce payment arrears, and support the implementation of performance-based budgeting. Cash accounting records rights and obligations at the time when cash is transferred in or out of the accounts, whereas accrual accounting recognizes rights or obligations only when goods and services to other parties are delivered or utilized and after goods and services are accepted from other parties. It does not consider whether cash has been accepted or paid (Hashim & Allan, 2001). The implementation of accrual accounting can result in sound cash management and treasury systems, particularly for controlling payment arrears, but it undoubtedly needs adequate measurement of assets, and it takes time. This leads some countries to implement modified approaches positioned somewhere between cash accounting and full accrual accounting.

In several countries that have undergone public management reforms, the application of accounting systems, especially accrual accounting systems, tends to increase rapidly in comparison with those countries without enhanced public sector reforms. New Zealand was the first government in the world to implement accrual accounting and reporting in the public sector (Lonti & Gregory, 2007). Australia and New Zealand have demonstrated an adequate level of accounting disclosure, and both countries have also incorporated accrual-based accounting in budget documents (Atkinson & Noord, 2001). Nevertheless developing countries should consider costs and benefits before implementing this approach. Although Ouda (2003) considers that, on the basis of cost-benefit analyses, it still has significant advantages, Carlin (2005)

argues that accrual accounting is costly. This latter view is supported by Paulson (2006) who asserts that the effectiveness of accrual accounting in the public sector still remains questionable. Therefore accrual accounting in the Public Treasury Law is still debatable conceptually. Schick (DFID, 2001) suggests that developing countries should ensure that their cash accounting is adequate before shifting to accrual accounting. Moreover, issues concerning the recognizing of tax receivables, pension liabilities, asset depreciations, and capital charges need to be studied further when applying accrual accounting.

2.5.4. Other PEM approaches

Other approaches, such as an integrated system and a chart of accounts with an impact on treasury management, should be considered as well. An integrated financial management information system (IFMIS) is often said to be central to PEM reform because all its approaches influence the system. In addition, IFMIS brings benefits of improved information and control, but it should be acknowledged that this development has significant costs (Allen & Tommasi, 2001; DFID, 2001). The introduction of such a system is classified as a project giving high results but with high risks (Bhatnagar, 2004). IFMIS is seen as a set of tools to support the achievement of PEM objectives by linking planning, budget preparation, budget execution, and accounting and reporting (DFID, 2001). In short, the treasury system is effectively part of an integrated financial management information system.

The accounts structure is adjusted in order to compare financial data internationally. Government finance statistics (GFS) are issued by the International Monetary Fund as a guide to developing a chart of accounts in each country. The chart of accounts ensures that not only can all government transactions be compared but they can also be classified, recorded and reported appropriately. Moreover, the level of detail

of the chart of accounts depends on the degree of control set by the treasury (Hashim & Allan, 2001). The implementation of a chart of accounts will permit a sound cash management and treasury system, particularly for preparing and analysing the cash inflow and outflow statements of government activities.

Furthermore, to give a comprehensive framework for public expenditure management, an organic law⁹ and other subsidiary laws should be enacted (Allen & Tommasi, 2001). Hashim and Allan (2001) note that comprehensive laws are crucial for providing a framework for government financial management at large, emphasizing the roles of actors, receipts, expenditures, accounting systems, asset management and control, borrowing and investment, and auditing. To illustrate, New Zealand introduced the *State-owned Enterprises Act 1986*, the *State Sector Act 1988*, the *Public Finance Act 1989* and the *Fiscal Responsibility Act 1994*, and Australia introduced the *Financial Management and Accountability Act 1997*, the *Commonwealth Authority and Company Act 1997*, the *Auditor General Act 1997*, the *Audit and Miscellaneous Act 1997*, and the *Charter of Budget Honesty Act 1998* in order to enhance the management of public finance (Hesse *et. al.*, 2003; Wanna & Barton, 2003; Lonti & Gregory, 2007). All these laws need to be in synergy to support sound public financial management.

2.5.5. Shift from traditional to contemporary approaches

As shown by Bietenhader and Bergmann (2010), there are various approaches to reform in the public sector: the ‘get the basics right’ approach (Schick, 1998a), the torto-hare approach (Campo & Tommasi, 1999), the two-pronged approach¹⁰ (World Bank, 1998), the platform approach¹¹ (Brooke, 2003), and the evolutionary approach¹²

⁹ An organic law provides the legal base as a framework for all key actors, relationships, the processes of budget preparation and implementation. On the other hand, an Annual Budget Law is enacted yearly. See Allen and Tommasi 2001 p.76

¹⁰ In the two-pronged approach, it suggests that the capacities of finance ministry and line ministries are developed concurrently in which a reform can go ahead as long as it is supported by related circumstances.

¹¹ Platform approach is that reform is packaged into groups of activities or platform which last for a period of two or three year, and this platform establishes a clear basis for moving to the next stage (cited in Bietenhader & Bergmann, 2010).

(Peterson, 2007). In terms of changes, Coombes and Verheijen (1997) and Pollitt and Bouckaert (2004) identified three types of reform: radical, incremental, and mixed. Most scholars agree that gradual reform is more appropriate than a big bang approach in the public sector. In addition, positively Manning *et al.* (2008) believed that these approaches provided some promise that developing countries could catch up faster than they did in the past.

Pollitt and Bouckaert (2004) emphasized five scopes of reform, from very narrow and limited to very widespread and broad. In recent years, however, Bouckaert *et al.* (2011, p.10) acknowledged that the span of reform has become rather broad. Concerning the stages in reform, Manning *et al.* (2008) emphasized that there is a pattern in sequence from basic to advanced, although there is a less obvious unique trajectory. In terms of adaption, Ongaro (2011) segregated three types of transfer (i.e. direct transposition, modified transfer, and inspiration) while leaving out the technical content of the management system under consideration. In one crucial study, Dimaggio and Powell (1983) identified *mimesis*, coercion, and normative as patterns that are somewhat analogous to the cause of institutional isomorphism in terms of imitating other countries' experience (as cited in Peters & Painter, 2010 p.235). There are nearly unlimited choices when it comes to Public Expenditure Management (PEM) reform. To some extent, this leads to confusion when leaders in developing countries must choose the appropriate approach.

Although Manning *et al.* (2008) considered OECD reform experiences to be relevant for other countries, many scholars (Allen, 2009; Lienert & Jung, 2004; Rose, 2001) agreed that there is no one size fits all approach to reform. Even similar

However, Allen (2009) has some critics to platform approach such as insufficient emphasis on institutional constraint, overloading of activities, an unrealistic time-horizon, poor prioritation, and micro-management.

¹² An evolutionary approach focuses on the sequential changes from transaction platform, policy/performance platform, to legislative platform (cited in Bietenhader & Bergman, 2010)

approaches can lead to different results (Bouckaert *et al.*, 2011). Peters (2008) acknowledged the difficulties of transferring public management ideas from a western socio-economic context to a non-western country context. Moreover, Allen (2008) warned that the commonly used expression, *best practice*, in describing a particular set of arrangements can be misleading when applied to other countries. In addition, he stated that diagnostic information derived from Public Expenditure and Financial Accountability (PEFA)¹³ or Public Financial Management (PFM) assessment which is usually used by donors or consultants likely has a significant drawback in terms of accounting for institutional factors. Previous studies showed that the policy design recommendations were often based on the specific experience and knowledge of international experts in their own countries or best practices used in advanced countries (Bouckaert *et al.*, 2011; Shakaravili, 2005). Allen indicated that the study of public finance essentially is a mixed study that consists of economics, accountancy, law, auditing, banking, political science, and even history.

With regard to implementation, Allen (2009, p.26) maintained that the success of public sector reform should be supported by a relatively short-term focus, no formal structure or plan, and a quite narrow and specific set of objectives with a large element of trial and error. Rose (2001) suggested the importance of considering the context of advanced countries in terms of political-administrative regime, policy sector, institutional rules, and cultural context. On the other hand, Lienert and Jung (2004) suggested the importance of domestic context in terms of the influence of the historical and present form of government, proportional representation electoral system, and legal formalities. This presupposes that context does matter and the actual functioning and effectiveness of reform depend on context to a large extent.

¹³ PEFA is a partnership program of the World Bank, the European Commission, the UK DfID, the Swiss State Secretariat for Economic Affairs, the IMF, and the Strategic Partnership with Africa (Brooke, 2003).

Concerning the context of reform, literature indicates a correlation between the type of country, the reform initiatives, and the progress of reform. Some scholars segregated PEM systems between anglophone and francophone countries (Allen 2008, 2009; Chu & Hemming 1991; Lienert 2005, 2007) but Premchand (1993) added other variations between these two - countries that use mixed systems. However, a comprehensive study by Lienert and Jung (2004, p.15) showed that the current gap between these models was not greater than the gap two decades ago. Others separated the type of countries based on legal framework in form of *rechtsstaat* and non-*rechtsstaat* countries (Bouckaert, 2001; Bouckaert *et al.*, 2011; Manning *et al.*, 2008; Painter & Peters, 2010; Pollitt & Bouckaert, 2004). As explained by Lienert and Jung (2004), some continental European countries begin with budget principles, move to law, and then implement both over a period of time. In contrast, these steps in Westminster countries tend to be reversed. Even Bouckaert *et al.* (2011) emphasized that this culture significantly influenced the contents of many reform measures, particularly when governments attempted to treat problems using legal norms; therefore, they considered that over-legalization and over-regulation normally do not deliver efficiency, economy and effectiveness. All this suggests that *rechtsstaat* countries do not evolve quickly and tend to be slow in initiating and implementing reform.

Moreover, according to Stevens (2004, p.2), the roots of public expenditure management in developing countries can be found in the Colonial era when the foundations were laid, whether they were anglophone or francophone. Few changes have been made to laws and regulations since then, but overall, the PEM system is related to the legal framework of these countries. This means that an indigenous developing country model, as identified by McCourt (2001), will be hard to find. This was supported by Lienert's (2007) study concerning the legacy in anglophone countries.

Besides the types of country, Allen (2009) suggested that the success of reform needs to consider a supportive high political level, the goals, the implementation period of reform, and the capacity to deliver. Therefore, Pollitt and Bouckaert (2004) warned that not every country has an equal capacity to implement reform in a coherent and comprehensive manner.

Table 2.4 Degree of Control and Flexibility

Treasury Process	Control		
	High	Moderate	Low
Budget document & adjustment			
• Budget/warrant document	Prepared by line ministry and approved by the treasury	Prepared by spending unit and approved by the treasury	Prepared by spending unit and approved by line ministry
• Budget changes	Approved by line ministry and the treasury	Approval is divided between the treasury, ministry, and manager	Approval is divided between ministry and manager
• Cash limits	Items and periodical limitation	Items limitation	No limitation
• Budget cutting	All items	Items are up to spending unit	No budget cutting
Budget Execution & Cash management			
• Cash planning	Daily/weekly cash planning based on commitment	Monthly cash planning with adjustment	No cash planning
• Commitment	Approved by the treasury	Some transactions should be approved by ministry	Free to make commitments
• Payment verification	Verified by treasury	Verification is divided between the treasury and spending unit	Verified internally
• Payment	By the treasury	Payment is divided between the treasury and spending unit	By spending unit from own account
• Cash receipt	By fiscal agent	By fiscal agent and spending unit	By spending unit
• Cash reconciliation	Monthly	Quarterly	Annually
Accounting & reporting			
• Chart of accounts	Set by the treasury	Divided by the treasury and line ministry	Divided by the treasury, ministry and unit
• Recording	By the treasury	By the treasury and spending unit	By spending unit
• Verification & validation	By the treasury	By line ministry and spending unit	By spending unit
• Reconciliation	Monthly	Quarterly	Annually
• Consolidation	Quarterly	Semester	Annually
• Reporting	Monthly	Quarterly	Annually

Source: Adapted from Hashim & Allen 2001; Campo & Tommasi 1999; Allen & Tommasi 2001

In terms of control arrangements, Table 2.4 shows the degrees of control in treasury management as identified in the PEM literature. When implementing these approaches, a country's leaders should know the expected practices and then shift the degrees of control in each treasury process. Moreover, by drawing on the experiences of

successful countries, the comprehensiveness, timing, focus, techniques and instruments of reform can be set and applied pragmatically (Campos & Pradhan 1997; Jensen 2003). Overall, in order to improve PEM in general, and treasury management in particular, developing countries can choose sophisticated PEM approaches from the broad options that are available and implement them gradually. The main question is that as a *rechsstaat* country and a former colony of the Dutch government, which is close to francophone system, to what extent can Indonesia succeed in the implementation of a mixed system of PEM reform.

2.6. Summary

This chapter has reviewed Public Expenditure Management, the key players and stages of the PEM process, particularly at the budget implementation phase. Some contemporary approaches to PEM, including performance-based budgeting, treasury single account (TSA), and accrual accounting have been discussed. However, although the implementation of these approaches seems difficult in the contexts of specific developing countries, the conceptual framework demonstrates that these approaches can be implemented pragmatically and gradually by considering the capacity of key actors, releasing controls in line with reducing risks, and adjusting institutional arrangements. Therefore this chapter has provided an adequate framework to examine the PEM reform in Indonesia as will be presented in the following chapter.

CHAPTER 3

PUBLIC EXPENDITURE MANAGEMENT AND THE TREASURY'S ROLE IN INDONESIA: WEAKNESSES AND REFORMS

3.1. Introduction

After the conceptual framework of public expenditure management was presented in the previous chapter, the present chapter is aimed at revealing the background and objectives of Indonesian reform in PEM. As mentioned in Chapter One, the Government of Indonesia proposed good governance principles and contemporary approaches to the reform. It will begin by describing the practices prior to the reform, their weaknesses, and will then cover the principles, main strategies and approaches taken in the PEM reform.

3.2. Public Expenditure Management (1945-2003)

3.2.1. The roles of institutions

The Indonesian Constitution of 1945 stipulates that during a transition period inherited colonial laws can be used in governing all public administration, including confirming the legality of the *Indische Comptabiliteitswet* (Indonesia Public Account act of 1925)¹⁴ for managing public expenditure. In the administration of public finance,

¹⁴ The *Indische Comptabiliteitswet* (Indonesia Public Account act) was originally adapted from the Dutch law 1867 (MoF, 2002a; Mellegers, J., 2003). The Act functioned as an organic law concerning public financial management in Indonesia but had major weaknesses such as narrow scope, appropriate only for a small closed economy, and no public accountability (ADB, 2004).

the Ministry of Finance, as the main institution responsible, has served the country in this way since the first cabinet was established in 1945. One unit under the Ministry that was responsible for managing public expenditure was the Directorate General of Budget (DG Budget)¹⁵. The Ministry and the Bank of Indonesia (BI), as central bank collectively, had the responsibility of maintaining and supporting national economic development. Before the Indonesia Bank Law was passed in 1999, the main tasks of the Bank were to keep the value of the Rupiah stable, to support the national economy, and to conduct government policies (BI, 1968) and so the Bank had to support the financial deficits of state annual budget when they occurred. Line ministers, as the president's assistants, had the roles of putting into action those national programs and activities that were listed in the National Development Programs (PROPENAS)¹⁶. In order to control public expenditure, several audit institutions were established.

3.2.2. Public expenditure management system

Since the establishment of the Ministry of Finance in 1945, the Finance Minister has a major role in managing public expenditure in Indonesia, in particular as a fiscal authorizer and general state treasurer. As fiscal authorizer, the Minister sets fiscal policy to foster national economic growth and to provide adequate incentives for the private sector (MoF, 2005c). As the State Treasurer, the Minister receives, keeps and disburses money to finance expenditures, particularly in assisting the implementation programs of line ministries or agencies (MoF, 2002b). Moreover, the Minister is responsible for preparing the state annual budget (APBN), controlling budget activities, and also reporting budget utilization. In the system, the Minister shared his role with the National Development Planning Agency (BAPPENAS) in preparing the budget, because of the

¹⁵ The DG Budget had a function at the budget preparation and budget implementation stages. But later the accounting function was delivered by another unit, the State Accounting and Reports Agency (BAKUN), established under the Ministry in 1991 (www.perbendaharaan.go.id).

¹⁶ PROPENAS was a national medium-term planning document approved by the executive and the parliament (www.bappenas.go.id)

implementation of a dual budgeting approach in which there were two types of budget, the routine budget and the development budget¹⁷. Therefore the routine budget had to be discussed with the Ministry of Finance, while the development budget had to be discussed with the Ministry of Finance and BAPPENAS jointly (Silaen, 2006). The Ministry of Finance had the right to reduce the tentative budget allocation and to freeze budget accounts based on the discussion. The routine budget and development budget were administered, executed, and reported separately; consequently spending units conducting development activity managed more than one budget document. However, this dual budgeting approach seemed to be more effective and efficient when the government accelerated capital development in all sectors during the earlier period of the development era¹⁸. Besides the issues involve administration and control, the major problem faced later was maintaining the continuity of acquired assets.

In preparing the budget, some principles such as the annuality, universality, unity, and speciality principles, were followed by the government. Based on the annuality principle, the government executed the budget from 1 January to 31 December¹⁹, and did not use a medium term perspective in budget preparation. To control budget execution, the government did not allow spending units to carry-over unused allocations into the next year's budget. But in certain cases, programs that were funded by foreign funds were able to be carried over (MoF, 2002b). Furthermore, budget adjustment had to be proposed to the Ministry of Finance, with a response no later than two weeks after the document was received. In certain cases, the approval of budget adjustment was delegated to lower levels under the Ministry (MoF, 1994).

¹⁷ The routine budget was to finance all operational activities in spending units such as wages and salaries, maintenances, travel costs, office supplies, and subsidies as well, while the development budget was to finance all activities that were able to be capitalized, such as buildings, roads, equipment and machinery, and other non-physical development such as the social safety net (MoF, 2002a)

¹⁸ The New Order under Soeharto divided the national development into a five year development plan (REPELITA) since 1969 (www.bappenas.go.id). Many project management units had been established for managing the development budget and were successful in achieving specific construction programs.

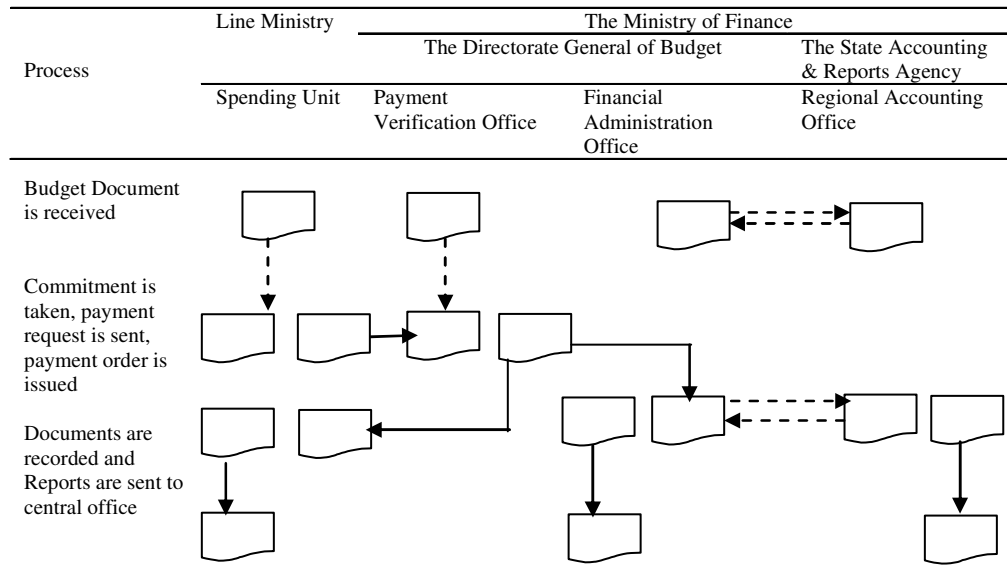
¹⁹ Previously the Government implemented the budget year from 1 April to 31 March from 1968 to 1994 (DG Budget, 1999).

Line ministries had to select and appoint a head of office and a disbursing finance officer (*bendahara pengeluaran*)²⁰ for each spending unit every year in order to manage and account for the budget execution; in some units a receiving finance officer (*bendahara penerimaan*) was appointed as well to handle non-tax revenues. The disbursing finance officer had responsibility for managing cash at the spending unit, record and report all finance transactions, and send payment requests to the Ministry of Finance (DG Budget, 1988). Although, since 1990, the banking system has been used to pay all government transactions, the Finance Minister allowed miscellaneous expenses to be paid through cash advance, managed by the officers. In addition, every payment request from spending units had to be signed by the disbursing finance officer and accompanied by supporting documents. The officer also was responsible for keeping the records manually and to present the budget realization report of the spending unit, not only for payments from cash advance but for all financial transactions. Bookkeeping procedures as a heritage of the colonial administration were used to record transactions. Furthermore, as a control, the head of office conducted a physical cash inventory at least quarterly; it was the responsibility of the head of office to ensure accountability of financial and physical aspects of spending unit activities. Financial accountability reports²¹ and assets reports had to be presented to a higher unit at the Ministry periodically (MoF, 2002b).

²⁰ In some articles, the disbursing finance officer is called the office treasurer or petty cash holder. The officer is under the head of spending unit.

²¹ At operational level, there were two main reports, the Budget Realization report (LKKR/P) and the Cash Flow report (LKKA) (MoF, 2002b).

Figure 3.1. Payment process (before 2004)



Source: www.perbendaharaan.go.id

Most treasury functions were conducted by the DG Budget. This unit had regional offices in most provinces and operational offices in most regencies or municipalities. The Payment Verification Office (KPKN), as an operational office under the DG Budget, was to support budget execution and cash payment. The Office conducted pre-payment and post-payment audits²². Spending units sent the payment request, and then the Office verified these to check budget ceilings, approval authority, supplementary documents²³, and the correctness of calculation. The Office then sent the payment order to the operational bank²⁴, as treasury agent, to transfer money to the right recipient²⁵. Before 1990, the Finance Minister and his proxies kept money in their offices to cash the payment requests from spending units, but gradually the services of operational banks and post offices²⁶ were used for all government financial transactions (DG Budget, 1999). All documents, such as payment requests and payment orders, were

²² Pre-payment audit was delivered when payment request and supporting documents was sent to the Office and post-payment audit was conducted when the Office audited the reports and cash held by finance officer of spending unit (DG Budget, 1999)

²³ Both the contract document and the progress or accomplishment document had to be enclosed as supplementary documents.

²⁴ To support cash payment mechanism, some state-owned banks were appointed as operational banks, but to support cash receipt mechanism, other private commercial banks were also included.

²⁵ Routine activities were paid no more than 2 days after payment request was received, while development activities were paid one day after document was received (MoF, 1994). The later regulation accelerated payment within 8 hours (ADB, 2004).

²⁶ Post offices were used to disburse money particularly in some remote areas (MoF, 2002c).

administered by the Financial Administration Office (KASIPA) in provinces (Figure 3.1). However, not only KASIPA but also Regional Accounting Offices (KAR)²⁷, under the State Accounting and Reports Agency (BAKUN), were responsible for recording all financial transactions. KASIPA had to enter all financial data into a single-entry accounting system. This system presented the Budget Realization reports (PAN)²⁸ as a form of accountability of government to parliament (ADB, 2004). The audited reports had to be submitted to parliament within 15 months after the end of the budget year. In addition, although the government did not implement performance-based budgeting, since 1999 the Performance Accountability of Governmental Institutions System (SAKIP) has been applied in which every spending unit had to present performance accountability reports and send them to the president via the hierarchy (SoS, 1999).

In cash management, due to the full support of the Bank of Indonesia to finance budget deficits, the management of cash focused on administrative rather than managerial aspects; it focused on how to record cash inflow and outflow. Moreover, the state cash was scattered across many bank accounts. At the Central Bank the bank accounts were managed directly by DG Budget and at the operational banks they were managed by KPKN. In addition, spending units and project units managed bank accounts at operational banks as well (MoF, 2002a).

Before the fourth amendment to the Constitution in 2002, the BPK, as supreme audit institution, was not explicitly stipulated as the independent and external auditor to the government (SAI, 2000). In addition, the government also had two institutions acting as internal auditors. The Financial Comptroller and Development Supervisory Agency (BPKP)²⁹, directly subordinate to the president, was responsible for supervising

²⁷ As a pilot project, since 1992 Regional Accounting Offices implemented a double-entry accounting system.

²⁸ The form of state financial accountability report was only a comparison between budget allocation and budget realization (MoF, 2002a).

²⁹ The Agency was established in 1983; previously it was a unit under the Ministry of Finance (www.bpkp.go.id)

all budget execution in state and local governments and their owned enterprises, while in each line ministry, an Inspectorate General (ITJEN), responsible to the Minister, was established to control internal financial transactions within the ministry.

3.2.3. Major weaknesses

Dual budgeting created different processes, documents, and managements (Silaen, 2006). It took time to present the draft of the State Annual Budget due to the two types of discussion processes (MoF, 2002a). Moreover, the higher costing standards of development activities in comparison to routine activities triggered negative incentives, to treat operational activities as projects, rather than as inherent tasks and functions of line ministries and spending units. In addition, budget duplications in terms of allocations for operational expenses between routine and development budgets were frequent. Furthermore, dual budgeting and lack of medium term perspectives ignored future expenses as a consequence of assets acquisition. They also caused spending units to focus more on the percentage of budget realization in the short term, rather than the outcomes of programs as long-term performances (ADB, 2004). Therefore the dichotomy of budget preparation between routine and development budgets caused poor linkage between planning and budgeting and hence inefficiency of public expenditure management (MoF, 2002a; Silaen, 2006).

The budget was prepared by using the line items approach, which reflected one of the traditional public expenditure controls. Budget discussion was not focused on outputs to be achieved, instead stressing the conformity of input costing standards (MoF, 2002a). Consequently budget documents did not provide relevant information concerning performance indicators and targets, but only presented the accounts and their budget allocations. As a further consequence, in budget execution, spending units focused on compliance with regulations, such as completeness of documents, rather

than on outputs. Generally, the performance of spending units was measured by their level of budget absorptions and compliance (MoF, 2002b). There was no formal evaluation of programs and activities due to lack of link between the planning document and the budget documents (MoF, 1994). Moreover, the performance reports produced by SAKIP were linked neither with the planning documents nor the budget documents; the performance measurement system did not provide adequate information and feedback. Superficially, many spending units were trapped into annual routines of filling in performance templates rather than improving services (Solikin, 2006). Therefore there was poor relation between budget allocations, executions and performance information.

Legally no exceptions to budget execution were tolerated, but in practice they happened, such as payments after closing the budget year in some line ministries, carry-over of unused capital budget allocations, self-utilization of non-tax revenues, off-budget management of oil revenues, and lack of accountability in miscellaneous expenses and transfer payments (IMF, 2006; Jakarta Post: January 25, 2008). It informs that there was a lack of budget discipline on the one side and inflexible budget execution procedures on the other. Moreover, at the budget implementation phase, many disbursing finance officers within spending units were unable to refuse improper payments and it was easy to for the head of office to intervene. In addition, the total amount of money held by all disbursing finance officers created huge amounts of idle money (MoF, 2002a). It indicates the problems in empowering finance officers, enhancing control and managing the state cash.

The single-entry bookkeeping system did not provide satisfactory financial reports (MoF, 2002a). Meanwhile the double-entry accounting system developed by the State Accounting and Reports Agency (BAKUN) seemed to be inflexible in following

the changes of budget structures and accounts regularly made by the DG Budget. Re-entry of financial data by the Agency also raised the possibility of recording errors, and the financial information presented did not help users to make managerial decisions (ADB, 2004). In practice, financial data were recorded by the regional accounting offices and sent monthly to the central office; an integrated computerized accounting system was not yet available. As a consequence, fiscal monitoring, policy analysis and government financial information systems were relatively weak (MoF, 2002a). It took more than 2 years after the end of the budget year to present the State Budget Realization reports (PAN) to parliament. Moreover, concerning treasury functions, there was some duplication such as accounting and reporting functions, between units within the Ministry of Finance (MoF, 2002a). But on the other hand, other important treasury functions, such as professional cash management and debt management, were barely undertaken, raising some problems in improving expertise in each treasury function. All this reflects that the Finance Minister as the general state treasurer was unable to perform his role well. It implies that the government accountability both to parliament and to public was poor.

Furthermore, although the Constitution stipulates that the BPK is the external auditor to government, in practice the role of that institution was limited; it was allowed to audit the expenditure side of the state annual budget only (MoF, 2008a). The institution complained that the issuance of sectoral laws³⁰, budget constraints, and lack of human resources weakened its capacity in conducting the audit. Moreover, the role of another audit institution, the BPKP, had a more significant role in auditing public financial management than the BPK (ADB, 2004). In addition, overlapping audits between audit institutions triggered objections to the line ministries being audited (MoF,

³⁰ The BPK argued that some sectoral laws such as the capital market law, the public corporate law, the tax law, and the foundation law limited the roles of institution to audit (MoF, 2008a)

2002a). Therefore, although there were various types of audit institutions, it did not present sound institutional arrangements; the audit emphasized compliances, as a consequence line ministries focused on compliances as well instead of expected performances.

Overall, prior to the reform, PEM system was characterized by major weaknesses such as poor accountability whether financial or non-financial, poor linkage between sequential expenditure phases, lack of control on the state cash, less synchronized audit institutions, and less supportive human resources and system. Such weaknesses have prompted the Government to launch a major reform program.

3.3. Public Expenditure Management Reform

Before 2003, various changes had already been made in order to develop adequate control and to overcome weaknesses in the traditional practices. But as presented in Chapter One, the partial changes at operational level were not adequate to overcome structural and systemic weaknesses. Therefore instead of following path-dependent changes in terms of displacement and layering to existing practices, as noted by Streeck and Thelen (cited in Painter and Peters, 2010), the Ministry of Finance conducted a path-breaking way; the new Laws were enacted. It was a part of three main strategies of reform which are: endorsing institutional arrangements, enhancing capacity building, and developing new systems (MoF, 2002a). The Public Finance Law was issued in 2003 and then followed by the Public Treasury and the Public Audit Laws in 2004³¹. A package of the Laws provides an adequate framework to conduct sound public finance management in terms of budget preparation, budget execution, and budget accountability in Indonesia. However, as presented in Appendix 1, it took time

³¹ The international finance institutions considered that the new Laws met most of international standards for a budget law and was a significant step towards bringing Indonesia in line with good international practices (ADB, 2004; WB, 2007).

to present the Bills and issue the Laws. Even some changes occurred between the Bills and the Laws which imply that certain proposed initiatives were adjusted (see Appendix 2). These changes refined some initial concepts but these may affect the implementation stage later if there are some inconsistencies or less synchronized between concepts. Following the Laws, the Ministry of Finance established a single unit under the Ministry, the Directorate General of Treasury [referred to hereafter as the Treasury]³² in 2004 to cope with treasury functions such as budget execution, cash management, accounting and reporting, asset management, and debt management (MoF, 2004c).

Table 3.1 the principles of good governance in the Laws

Professionalism/ Responsive	Transparency	Accountability	Independent external audit/ participatory
<u>In budget execution:</u> Line Ministers Spending unit managers Finance officers	Budget user/ Assets user	Performance information as notes for the financial reports	Managerial control
<u>In cash management:</u> Finance Minister Finance/Treasury officials Receiving/ disbursing finance officers	TSA at the central banks/ other accounts at appointed banks	Cash flow statement	Treasury control
<u>In accounting & reporting:</u> Finance Minister and line ministers	Accounting standards Reporting entity Accounting basis Account classifications Accounting system	Financial accountability reports Managerial report	Internal audit External audit

Source: adapted from MoF (2003a; 2004a; 2004e)

The principles of accountability, transparency, professionalism, and the use of external audit are incorporated into the Laws. In terms of accountability, it is the responsibility of government to present financial accountability in terms of balance sheet, budget realization report, cash-flow statement, and notes to the reports annually to parliament; performance information is included in the notes (MoF, 2004a). Then the audited financial accountability reports are open to the public once they have been submitted to parliament (MoF, 2004e). Moreover, to promote transparency in all

³² This unit was a merger of a major part of the DG Budget, the State Accounting and Reports Agency (BAKUN), and the Centre for State Debt Management (PMON). Vertical offices under these institutions merged into one unit as the State Treasury Service Office (KPPN). The establishment of the DG Treasury is expected to eliminate overlapping functions and to merge treasury functions into one unit in order to increase the efficiency and the effectiveness of public expenditure management.

government transactions, the definition and scope of public finance are determined clearly; all public money has to be administered properly and transparently and every public expenditure transaction has to be authorized first before it is spent (MoF, 2004a). To strengthen the linkage between planning and budgeting, the State Annual Budget (APBN) has to be based on the State Annual Plan (RKP); the Budget has to be allocated based on performance targets of programs and activities determined by each line ministry (MoF, 2003a). Two months before the beginning of the budget year, the State Annual Budget has to be issued and no more than six months after the end of the budget year, the financial reports have to be presented (MoF, 2004a). Furthermore, the professionalism of line ministries is emphasized as budget users and assets users (MoF, 2003a). Concerning strong, professional, independent oversight by the external auditor, the Laws provide an adequate basis for the BPK to conduct its roles as mandated by the Constitution; specifically the Public Audit Law covers the clear scope of audit, audit execution, audit opinion, recommendations and follow-up, and also the recovery of government losses (MoF, 2004e). All this informs that the Laws have accommodated the principles of good governance in PEM (Table 3.1.). The main concepts of the PEM reform will be presented in the following sections.

3.3.1. Decoupling between Finance Minister as Chief Finance Officer and Line Ministers as Chief Operational Officers

In the White Paper (2002), the segregation of roles between finance ministry and line ministries is the objective; the clear roles of institutions are to support transparency and professionalism in public expenditure management as well. The Public Finance Law stipulates that the President, as chief executive officer (CEO) of the government, delegates his authority in managing public finance and delivering goods and services to finance minister as chief finance officer (CFO) and to line ministers as chief operational officers (COOs) (MoF, 2003a). The implication of these segregation roles is that certain

adjustments have to be made in all aspects of existing public expenditure management from budget preparation and execution, to accounting and reporting. For instance, the White Paper (2002) emphasizes the shifting pre-payment control from the Treasury to line ministries in budget execution at the operational level. However, the question is how the full segregation between two key players is applied in PEM. It presupposes that the roles of the Ministry of Finance will decrease but it needs the adequate capability of line ministries to deliver the new roles; poor transformation can lead to unexpected results.

3.3.2. Decoupling between political accountability, operational accountability, and fiduciary accountability

Besides decoupling the roles horizontally, the reform also emphasizes the segregation of accountability vertically; although this is not stated in the White Paper, the reform initiators state this segregation on several occasions. The decoupling clarifies the accountability between minister and his subordinates (MoF, 2002a). The segregation is to overcome unclear responsibility and accountability between parties as occurred in many cases³³ before the reform. It is also triggered by some cases of cash fraud at spending units. Therefore, conceptually the reform divides accountability into three categories: political, operational, and fiduciary accountability (Table 3.2) (MoF, 2003a).

Table 3.2 Levels of Accountability

Level of accountability	Subject	Object	Accountable to
Political accountability	Ministers in each ministries (including Finance Minister as a head of Ministry of Finance) as COO	The outcome of program, performance report, budget realization report	Ministers are accountable to president (presidential system)
Operational accountability	Managers of spending units as proxy of COO	The output of activities, performance report, budget realization report	The head of spending units are accountable to minister
Fiduciary accountability	Finance Officer as cash holder (<i>bendahara</i>)	The management of cash, cash flow statement	Financial officers are accountable to the head of spending units, the Treasury, and the BPK

Source: adapted from MoF, 2004a

³³ To illustrate, a case of project failure occurred in 1999 when the government wanted to transform a thousand hectares of moss land to paddy fields in Borneo; instead of fertile paddy fields, the project generated arid and fire-volatile land but nobody within the ministry was responsible for the failure (Kompas: April 25, 2008b).

Political accountability has to be delivered by a political appointee, in this case the minister, who has to be accountable for the policies chosen, programs undertaken³⁴, outcomes promised, and resources managed. But, the Laws still emphasize financial accountability reports; performance accountability becomes a part of the notes for the reports (MoF, 2004a). Moreover, operational accountability is introduced. This has to be delivered by an operational manager, such as the head of a spending unit, an official under the ministry who manage activities and budgets. However, the Laws do not state specifically the accountability of operational managers but the Laws just emphasize the appointment of the proxy of the minister. The Laws also stipulate the accountability of financial officers at units; fiduciary accountability has to be undertaken by a person who receives, holds, and disburses public money. Even the Laws stress the personal liability of the financial officer as cash holder in cases of cash mismatch. All this suggests that the segregation of accountability is expected to increase the effectiveness and the efficiency of public policy and delivery of service and goods (MoF, 2002a). Moreover, the presentation of financial and performance accountability is expected to enhance accountability at large. However, the further question is whether the decoupling responsibilities and accountabilities can be applied well in practice and how the authority and responsibility of minister, spending unit manager, and finance officer are defined. To support the reform principles and the segregations, some approaches are also stipulated in the Laws.

3.3.3. Applying several approaches to the PEM

Performance-based budgeting

One of the major changes introduced in the reform is the performance-based budgeting approach, as mentioned in Section 2.5, an approach to budget allocation

³⁴ The ministerial programs have to be in line with national programs stated in the Medium Term National Development Plan (RPJM Nasional) document. The platforms of the elected president are elaborated into the Plan document (MoF, 2004c).

based on performance targets, such as the number of outputs to be accomplished in a certain period. The Public Finance Law requires that the Annual Work Plans and Budgets (RKA-KL) as proposed by each line ministry/agency have to be in line with the performance targets to be achieved (MoF, 2003a). The approach³⁵ is to overcome poor non-financial performance information as found before the reform. In addition, it supports the decoupling roles, particularly the roles of ministers as COOs. Moreover besides performance-based budgeting, the Laws support the unified budgeting system³⁶ due to some weaknesses in dual budgeting. The unification is aimed at enhancing the effectiveness, efficiency, and comprehensiveness of PEM. Each line ministry presents a proposal for RKA-KL to the Ministry of Finance, in line with a tentative budget allotment distributed earlier (MoF, 2003a), implying that only one budget proposal has to be presented and sent to the Ministry for discussion³⁷. Furthermore, to eliminate lack of medium term perspective hampering the continuity of programs and activities and the future implications of current policies, the Public Finance Law requires the government to introduce a medium term expenditure framework approach in preparing the Annual State Budget (MoF, 2003a). Even though the best practices in other countries follow three to five years medium term expenditure framework, the Law stipulates the implementation of a two years medium term perspective³⁸ considering the capability of government to estimate the future economic conditions and the right of parliament to approve the Budget.

³⁵ The Ministry of Finance acknowledged that the success of this approach needs the development of a performance culture within institutions, clear performance indicators, setting performance targets, and the determination of output costing (MoF, 2007j).

³⁶ Unified budgeting is an approach to developing a budget by unifying its preparation and execution processes, documents, and management into one integrated system, with no dichotomy between the processes of the recurrent and capital budgets.

³⁷ Consequently the role of the planning agency focuses on all planning processes and preparation of national plan documents, so that the Agency do not have to evaluate the capital budget proposal a second time. In the budget preparation phase, the Ministry of Finance is responsible for evaluating whether the costing of the budget proposals accords with costing standards (MoF, 2004c).

³⁸ The governmental regulation elaborates that line ministries and spending units have to prepare the budget data for programs and activities from the previous year, the current year, the budget year, and the next following year when they present the budget proposals (the MoF, 2004b). In order to support the implementation of MTEF, the government sets the maximum percentage of budget deficit to GDP which can be allowed as a part of budget discipline in medium term (MoF, 2003).

Treasury Single Account

Besides public money being uncontrolled at cash holders within ministries, the arrangement of the Bank of Indonesia as an independent institution in 1999³⁹ requires the Finance Minister as the Treasurer to manage state cash more professionally. In order to accomplish that purpose, the Public Treasury Law emphasizes the implementation of the treasury single account (TSA) (MoF, 2004a). The TSA is opened at the Central Bank and all cash transactions whether cash receipts or cash disbursements are connected and integrated into the account although some treasury accounts are opened at other appointed banks. It presumes that the banking infrastructures have to support the sweeping mechanism and the Treasury can utilize all cash balance optimally.

Accrual Accounting

Three main objectives of accounting and reporting, as noted by Premchand (1993) which are to monitor budget execution and enhance its accountability, to keep assets, and to support the operational manager, are already accommodated into the Public Finance Law and the Public Treasury Law (MoF, 2002; 2003a; 2004a). In addition, the reform emphasizes financial accountability of the executive to parliament annually⁴⁰ through the enactment of a financial accountability law. However, conceptually financial accountability is to account for assets or resources that are managed by an entity as an agent to its principal; it means that the executive should account for the custody of assets. Consequently the point of transaction and its recognition which leads to the shifting of assets' ownership become significant. Therefore the objective of accrual accounting as mandated by the Law essentially is to clarify and strengthen the connection between the points of transaction, recognition, and changing the ownership. In view of the mandate to apply a full accrual accounting

³⁹ The institution is free from external interventions and with full responsibility for managing monetary functions; the Bank is not allowed to print money in order to finance budget deficits anymore (BI, 1999; Ismail, 2009)

⁴⁰ Although financial and performance information in form of reports can be presented concurrently or separately, the Law emphasizes the presentation of a performance report as additional explanation to budget realization report (MoF, 2003a) (see Appendix 3 and 4).

system by 2008, the enactment of the Public Finance Law provides a legal basis for the implementation of the new accounting system (MoF, 2004a).

This chapter has shown that the PEM reform has incorporated good governance principles and several contemporary approaches into the Laws. The question is the extent to which all best practices have been internalized into the system after several years of the reform. In a 2007 assessment, the World Bank measured PEFA indicators⁴¹ that reflected public financial management performance. Although the PEFA measurement was not designed to rank PEM system in countries, directly or indirectly the indicators and results were used by the Indonesian government to improve its PEM system, such as through creating an integrated financial management information system (IFMIS). However, this measurement did not indicate which indicators should be addressed first. It then led countries, such as Indonesia, to jump into the achievement of each indicator without considering the connectedness to other indicators. From the results of the assessment, the World Bank affirmed that the reform was supported by political will and the involvement of senior officers.

However, the World Bank stated that in institutional arrangements, the reform had some key weaknesses, such as a lack of available road maps that could be used as sequence milestones between single reform initiative and to disseminate information regarding the objectives and direction of the reform. In addition, there was a lack of coordination between related institutions, such as the finance ministry, planning unit, and line ministries. Moreover, the World Bank indicated that these institutions had a lack of technical skills to both design and apply the reform. The question is whether these are the main problems that affected the progress of the reform or whether there are other root problems which caused these visible problems. In addition, as shown in

⁴¹ It measures 31 high level indicators which are reflected aggregate fiscal discipline, allocative efficiency, and operational efficiency based on internationally recognized good practice (World Bank, 2007b).

Section 2.5.5, there are various approaches to reform. Donors acknowledge the difficulties in choosing which method to use when applying the best practices. This indicates that although donors supported the reform, including the IFMIS project, they did not succeed in assisting the issuance of road maps and milestones. Importantly, the assessment determined that the line ministries did not develop sound internal controls, which could lead to unreliable data and financial reports. The World Bank warned that this could jeopardize the aggregate fiscal discipline. In conclusion, the budget execution process within line ministries appears to be a significant barrier to efficient service delivery (World Bank 2007b, p.12). The World Bank emphasized that operational efficiency needed to be explored further. Therefore, the current study becomes crucial because it focused on operational efficiency and the changing relationships and controls between institutions and actors in PEM reform. In addition, to assess the impact and outcome of the reform, this study set more indicators at the operational level, such as detail indicators concerning control and flexibility, in addition to PEFA indicators. This study presumed that the changing control arrangements in reform were affected by the changing institutional arrangements.

3.4. Summary

The chapter shows the practices and weaknesses of PEM before the reform which suggests that sound PEM principles were lacking. Considering the weaknesses, the Government launched the PEM reform. The main strategies were set in terms of endorsing institutional arrangements, enhancing capacity building, and developing a computerized system. A package of new Laws was then enacted; these Laws have provided an adequate legal framework demonstrating the principles of good and clean governance although translating the concepts into the Laws required some changes. The reform emphasizes the segregation of responsibility and accountability between key

actors particularly between the Finance Ministry and line ministries vertically and horizontally. In addition, the Laws incorporate some contemporary approaches to PEM such as performance-based budgeting, treasury single account, and accrual accounting. Furthermore, to enhance treasury functions as the role of the Ministry of Finance, the Treasury was established.

These developments in terms of the Laws covering principles, concepts, and approaches and the establishment of the Treasury presumably provide the sound institutional arrangements in PEM; they are expected to overcome the weaknesses that existed prior to reform. However, the effectiveness of the changes after several years of the reform at operational level remains unclear and yet to be evaluated. To assess the effectiveness of PEM reform, the next chapter will show the evaluation framework, research methods and methodology that have been chosen.

CHAPTER 4

RESEARCH DESIGN AND METHODOLOGY

4.1. Introduction

Despite the progress of the PEM reform in terms of the enactment of laws and the establishment of the Treasury as shown in the previous chapter, no study so far has been undertaken to assess the extent to which the reform has produced expected outcomes. Therefore to explore and examine the progress of reform and its achievements, this research design and methodology have been developed. This chapter provides an overview of the evaluation research and the evaluation framework developed to measure various indicators. Following the set of indicators, the groups of stakeholders determined based on their roles and involvement in the reform will be elaborated. To gather their perspectives, both qualitative and quantitative approaches that are applied in this study will be discussed. The chapter shows the justifications for using interviews, questionnaire surveys, focus group discussions, and observations in the fieldwork. The techniques to present and analyse data will be presented then. Before the summary, ethical issues will be informed as well.

4.2. Evaluation Research

As mentioned in Chapter One, this study is aimed at understanding the implementation of the PEM reform in Indonesia in general and examining and

analyzing the factors contributing to the outcomes. In particular, given that this study is intended to evaluate the reform, it is necessary to understand how elements, stages and processes of PEM are interrelated. Moreover, the discussions of the conceptual framework of PEM in Chapter Two demonstrate the relationships between various institutions, such as the Treasury, line ministries, and agents at several levels; it also shows the relationships between treasury functions such as budget execution, cash management, accounting and reporting. Therefore evaluation research⁴², as a type of applied research, is appropriate to address the research purposes and questions. There are various types of evaluation research but formative evaluation⁴³ is more appropriate, the use of which requires a general understanding of institutional problems and solutions which will be developed. This study is not intended to determine the continuity of policy or the performance of institutions rather it is focused primarily on identifying obstacles, enhancing effectiveness and accelerating the progress of the reform.

According to Hall (2008), evaluation of policy can be undertaken by looking at processes and results. However, due to some constraints, many evaluation studies have focused either on processes or results only. In this study, I intend to evaluate the effectiveness⁴⁴ of the PEM reform in Indonesia. Therefore, the expected outcomes of treasury functions stipulated by the Laws were set as the main criteria. The recent results of the reform were measured and compared with these criteria. But in order to make a comprehensive evaluation, not only the results but also the reform process itself was examined and measured.

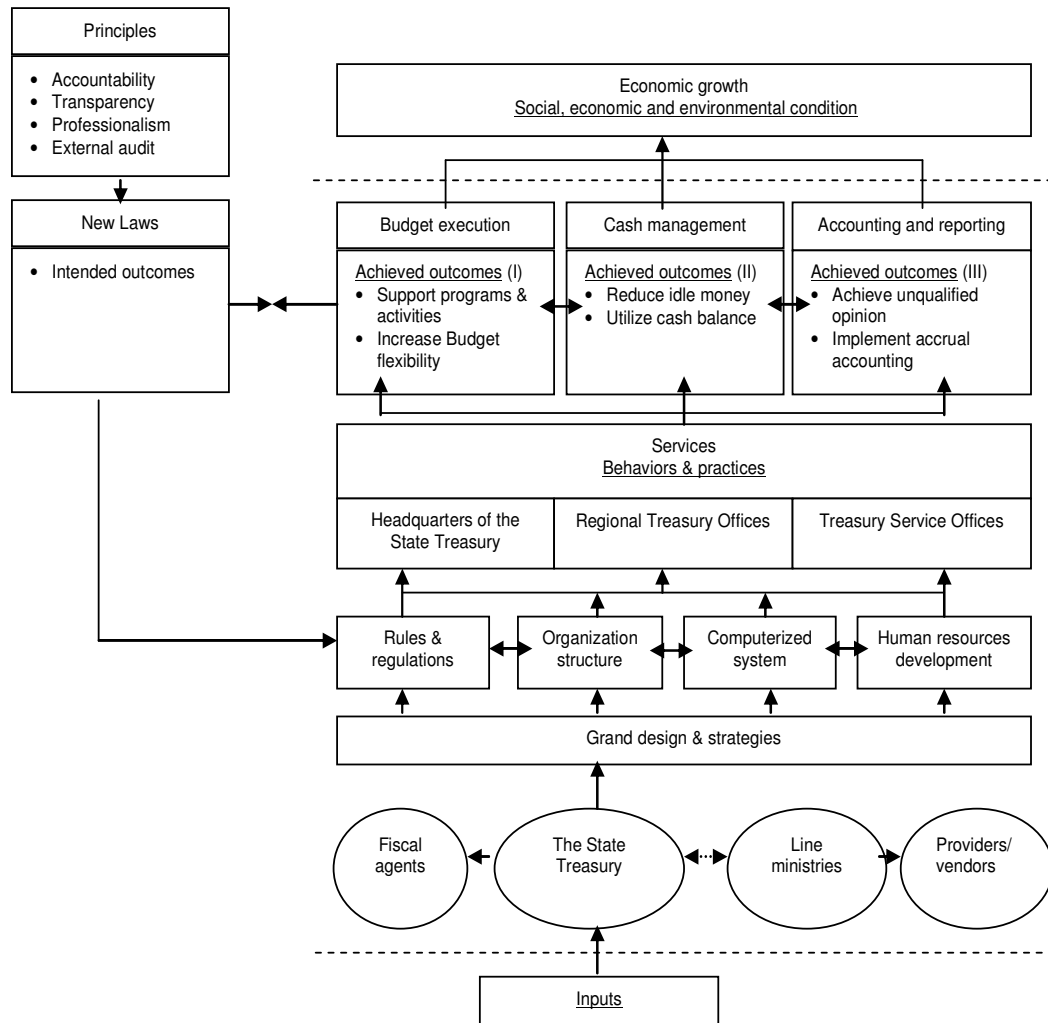
⁴² Evaluation research is a type of applied research which tries to determine how well a program or policy is working or reaching its goals and objectives (Neuman, 2006)

⁴³ Formative evaluation is a form of evaluation which serves the purpose of improving a specific program, policy, group of staff, or product (Patton, 1990).

⁴⁴ Effectiveness is defined as a comparison between outcomes and inputs (Bennet, 1975), but in this study it will be focused on a comparison between the targets and realizations of outcomes.

Furthermore, a systematic assessment approach by using Bennett’s hierarchy⁴⁵ (1975) and modified Allen *et al.*’s (2004) PEM assessment instruments to measure the process and the outcomes⁴⁶ was developed (Figure 4.1). A logical framework for the evaluation was attached in Appendix 5.

Figure 4.1. Research evaluation framework of the effectiveness of PEM



However, although the conceptual framework of PEM shows network processes between institutions and treasury functions, the measurement of effectiveness of the

⁴⁵ Bennett’s hierarchy/model shows the chain of events from determining resources, developing programs & activities, targeting audiences’ participation, measuring client’ reactions/satisfactions, changing in knowledge, attitudes, skills & aspirations, changing in behaviors and practices, to improving social, economic and environmental condition (Bennett, 1975).
⁴⁶ In this study, technically outcomes were measured by indexing and weighting the compilation of measured outputs. Outputs were measured by scoring the perspective of respondent s concerning specific indicators.

reform using a linear process model was emphasized. To maintain the focus of study, inputs of the reform as the bottom level of the hierarchy and social and economic impacts as the top level of the hierarchy were not measured. Likewise, the impacts of government expenditure on economic growth were not studied. The reactions, learning, behaviour and practices of stakeholders as stated by Kirkpatrick (1959, cited in Gray 2004) were measured. Therefore the research focuses on the activities of reform and the outcomes of treasury functions.

The results of the reform were evaluated by examining performance and changes of performance over the last several years whether in budget execution, cash management, and accounting and reporting. The perspectives of various stakeholders concerning reform results were measured as well. On the other hand, in evaluating the process of the reform, some components influencing the results were determined. The study evaluates whether strategies have been implemented, new rules, procedures and systems were put in place, human resources were developed, and new roles were supported. Therefore the evaluation of results and process was to find nodal points that hampered the effectiveness of the reform.

Given that this study is a formative evaluation, not intended to measure individual performance, I tried to be a faithful reporter, for which the role of researcher allowed participants to share their feelings and perspectives openly as emphasized by Blaikie (2000). Stakeholders' expectations, needs, and problems faced during the reform were identified. As a result, there was very little or no resistance by participants to the research. Being a staff member at the State Treasury has helped me in gathering adequate information, material, and data during the field research. Despite objectivity to some extent being affected due to my *emic* situation, having served the institution since

1994 and having been involved directly in the PEM reform, my credibility⁴⁷ as a researcher was maintained. According to Patton (1990), in conducting evaluation research, although it is important to maintain the credibility and the objectivity of the researcher, the credibility is prioritized more. Therefore, the credibility was supported not only by my familiarity with various performance indicators of effectiveness, and of the multiple perspectives of stakeholders, but also by implementing cross check and balance information. For example, at the end of fieldwork the seminar⁴⁸ was conducted in order to check and review collected information and to test the accuracy of interpretations. Moreover, the background of the researcher influenced the research purposes, questions and techniques chosen. As noted by Creswell (2003), it also affirms and clarifies the role of the researcher in the study.

4.3. Identification of the Data Sources

In order to explore the process and effectiveness of the reform, the Treasury and line ministries, as the major stakeholders of the PEM reform, were selected as the objects for research. This study focuses on the relationships between these institutions since decoupling functions between the CFO and COOs have been implemented. Moreover, agents that support the role of these institutions were also chosen as sources of information. Treasury agents support the Treasury in collecting and distributing cash. On the other side, providers of goods and services support line ministries in delivering programs and activities. However, other sources outside these institutions were determined as well, such as the parliament and the supreme audit institution.

⁴⁷ Besides credibility, transferability, dependability and confirmability, as proposed by Lincoln and Guba (1985) for judging the soundness of qualitative research, were considered deeply. Iteratively, the researcher compared the findings and analysis with other public sector reforms, other countries' experience, and literature including anomalies and inconsistencies before deciding conclusions and recommendations.

⁴⁸ Although all interviewees were invited, only 7 participants attended the seminar. To gather the senior civil servants at the same time was uneasy. Because the fieldwork data had not been analysed at that stage, this seminar just presented the general tentative findings to participants.

Further, several categories of participants were selected. Participants from the Treasury were divided into the members of the Financial Management Reform Committee (FMRC), officials, and staff. Similarly, participants from line ministries were divided into finance managers at ministry level, spending unit managers, and disbursing financial officers. Moreover, there were two types of treasury agents, the Central Bank and commercial banks. Representatives of providers' associations at central level and providers of goods and services in the regions were also selected as participants. The main point of such participant segregation is to represent policy makers and operators of the reform. Therefore, the data sources and segregations were determined based on the roles and involvements in the reform. The information to be sought from each group of participants will be discussed in Section 4.5.

4.4. Selection of Methods: Combination of Qualitative and Quantitative Methods

In consideration of the research questions and purposes, the research used mixed methods⁴⁹, which are commonly applied in evaluation research. This is also known as the “integrated”, “combined”, “hybrid” or “methodological triangulation” method (Creswell & Clark, 2007). According to Patton (1990), the credibility of a study can be enhanced through appropriate techniques and methods for gathering high-quality data. Interviews, focus group discussions and observations, as qualitative techniques, and questionnaires as a quantitative technique were applied. As noted above, data were gathered from various stakeholders such as the Treasury, line ministries, and agents operating at central, regional, and operational levels. Therefore, the combination of

⁴⁹ Mixed methods research is a research design with philosophical assumptions as well as methods of inquiry. As a methodology, it involves philosophical assumptions that guide the direction of the collection and analysis of data and the mixture of qualitative and quantitative approaches in many phases in the research process. As a method, it focuses on collecting, analyzing, and mixing both qualitative and quantitative data in a single study or series of studies. Its central premise is that the use of qualitative and quantitative approaches in combination provides a better understanding of research problems than either approach alone (Creswell & Clark, 2007 p.5)

several approaches, techniques and resources were applied; in practice qualitative and quantitative approaches were implemented concurrently.

There are several reasons why I chose to use mixed methods. First of all, the scope of the reform implementation in Indonesia is enormous; moreover, the population of stakeholders is quite huge and they are scattered across the country. Evaluating the progress and the results of the reform comprehensively will be a daunting task with serious budgeting implications. In view of this, the field study was conducted over only one period of time, by carefully selecting and applying appropriate and mixed approaches and techniques. Mixed methods enabled me to manage the scope of research in line with time and budget constraints.

Secondly, the nature of research questions also requires that a mixed approach be adopted. To answer how effective the reform is, a quantitative approach was applied, principally since I had already developed some criteria to measure the effectiveness of the reform. As noted by Patton (1990), quantitative data are succinct, parsimonious and easily aggregated for analysis and evaluation. Therefore the questionnaire survey was developed and sent to the various stakeholders. Moreover, the observations as a qualitative approach enriched the measurement of effectiveness at operational level. But to answer why problems persist and identify the desired solutions, in-depth interviews and focus group discussions were more appropriate to explore the answers. In addition, interviews revealed other factors not found through questionnaires.

Furthermore, each technique was not only to provide specific information but also to complement the other techniques. For example, considering interview bias, the information from interviews with the finance managers at ministry level was complemented by the information from questionnaires from the other finance managers. Another reason is that diverse perspectives from the various stakeholders were needed

to evaluate the effectiveness of the reform. The success of the reform would not only be assessed by the Treasury alone, but also had to be acknowledged by other stakeholders. Moreover, within the Treasury, the success would not only be judged by policymakers but also supported by those pursuing the policies. Therefore all indicate that the scope of research, the nature of research questions, the limited time and budget, and other advantages and disadvantages contributed to the using of mixed methods in the study.

4.5. Selection of the Participants and the Locations

A combination of purposive sampling, simple stratified sampling, and quota sampling was applied in this study. Interview participants were selected mainly through purposive sampling although some of them were selected through snowball sampling. Because the researcher was involved in the reform process, some participants were known as the reform initiators, the policy makers/regulators, the policy implementors, and even the active critics to the reform. Moreover, the information about some participants was gathered from the organizational structure of each institution. In addition, the participants from line ministries, the finance managers, were chosen from selected ministries that were part of the pilot project⁵⁰ on performance-based budgeting (MoF, 2008a). Therefore, the researcher chose the interviewees based on their positions, authorities, expertise, knowledge and involvement.

Simple stratified sampling as a probability sampling technique was applied in selecting the treasury officials across the country. The reason for using this technique is that the size of the population is known and manageable. The Treasury has 30 Treasury Regional Offices and 182 Treasury Service Offices. Therefore the treasury officials from 9 regional offices and 30 operational offices were selected. It represents three major areas which are the western part, the Java part, and the eastern part of Indonesia.

⁵⁰The project is supported by the Ministry of Education, the Ministry of Health, the Ministry of Public Works, the Ministry of Finance, and the National Development Planning Agency.

In addition, it considered the types, the size of the locations, and the age and tenure of officials as well. Moreover, in selecting the treasury staff who were sent emailed questionnaires, systematic random sampling was applied. The treasury employees' mailing list was used and a hundred staff selected systematically. But to the other treasury staff who were given on the spot questionnaires, all of the staff were surveyed because the involvement of the staff in these events already represented staff across the country. In order to avoid overlapping participants between emailed and on the spot respondents or between officials and staff, the letter of introduction mentioned that the questionnaires were to be responded to only once, both by official or staff. Concerning the observation at operational level, purposive sampling to determine two treasury service offices applied; one modern treasury service office⁵¹ in Jakarta and one conventional treasury office in Bogor were selected.

Furthermore concerning the appointment of participants at line ministries, there are 35 line ministries in the state government. All finance managers at ministry level were surveyed; 5 participants were interviewed, as noted earlier, and 30 participants were sent the questionnaires. At operational level, simple random sampling was applied not only to determine spending unit managers and disbursing finance officers but also to determine providers of goods and services. It was delivered with the assistance of treasury staff at two selected treasury service offices; the questionnaires were given when spending units processed their payment orders. This was more manageable than surveying 10,621 spending units across the country⁵².

⁵¹ Since 2008, the Treasury has gradually selected some of the Treasury Service Offices at operational level as pilot project on modern offices for enhanced services to spending units. As an example, the process of payment verification will be accomplished in one hour rather than eight hours in the conventional office. The modern offices are supported by selected staff, computerized systems, and new standards of operating procedures (DG Treasury, 2008i)

⁵² Source www.perbendaharaan.go.id

4.6. Research Techniques

Based on the mixed methods above, several research techniques were selected. A combination of interviews, questionnaires, focus group discussions, and observations was applied, taking into account the time, budget, and capacity constraints. The interviews were conducted primarily with policy makers at the Treasury, line ministries, and other related institutions at central level; however, some representative operational officials were interviewed as well to explore operational implementation. To complement the information from interviews, focus group discussions with lower level managers at the Treasury and observations at service level were conducted. Moreover, questionnaires were sent to several participants at various levels; the variety of population is a major concern in implementing the questionnaire techniques.

Table 4.1 Data Sources and Research Tools

No.	Level and Institution	Technique	Number of people involved/ FGDs/ Meetings held
I. <u>At central level</u>			
1.	The State Treasury/ the MoF	Interviews Focus group discussion Observation Documentary evidence	24 treasury officials 3 FGDs 1 tripartite meeting
2.	Line ministries	Interviews Questionnaires	5 finance managers 17 finance managers
3.	Other institutions	Interviews Documentary evidence	5 officials
4.	Treasury agents	Interviews	2 bank officials
5.	Association of provider of goods and services	Interviews	1 head of association
II. <u>At regional level</u>			
1.	Treasury Regional Office	Interviews Questionnaires	1 treasury official 9 treasury officials
III. <u>At operational level</u>			
1.	Treasury Service Offices	Interviews Questionnaires Observations	4 treasury official 36 treasury officials 2 offices
2.	Spending units (2 locations)	Questionnaires	34 spending unit managers 33 disbursing finance officers
3.	Providers of goods and services	Questionnaires	31 providers
IV <u>All levels</u>			
1.	Treasury staff	Questionnaires	203 treasury staff

The quantitative and qualitative research techniques were conducted during six months from April 2009 to September 2009 as planned in the time schedule (see

Appendix 6). However, it is not a pure two-phase study as noted by Creswell (2003); the time schedule was designed so as to distribute the burden of research activities evenly during the fieldwork. It was planned that the research would use a sequential approach in which interviews would be conducted first in the second and third months of the fieldwork, followed by observation, focus group discussions, and questionnaires in the next following months. In practice, the interviews were conducted from the second month to the fifth month; it was adjusted due to the difficulty to set and accommodate changes of interview schedules. Besides all research techniques above, secondary data were gathered concurrently during the fieldwork (Table 4.1).

4.6.1. Interviews

Because this is also exploratory research, interviews are an appropriate technique to identify and understand institutional and individual perspectives on issues relevant to the research. Although according to Bailey (1987) there are some disadvantages such as cost, time, interview bias, loss of anonymity and accessibility, interviews were conducted with the selected participants. To overcome various constraints, some of the senior officials and other stakeholders based in Jakarta only were interviewed. The topic guides for interview are presented in Appendix 7. Initially 34 participants from several institutions were to be interviewed but in practice, the number increased becoming 43 considering the progress of survey research and the snowball recommendations. As a result, the in-depth interviews with these participants enriched the understanding of the PEM reform in Indonesia, not only of the strategies and practices but also of the background of policies. Moreover, the problems faced and possible solutions were able to be explored deeply.

Interviews with the members of FMRC such as the Secretary General of the ministry, the Inspector General of the ministry, and the Executive Secretary of the

Treasury were conducted at the initial stage of field research. As these participants are reform initiators and policy makers, these semi-structured interviews were aimed at gathering the general framework of reform, expected outcomes, and policies taken in general. Therefore the results of these interviews influenced the subsequent interviews in terms of exploring the implementation of the concepts of the reform and the policies. Some participants from the Treasury were chosen due to their roles in proposing policy and strategy to the highest level official. These semi-structured interviews were also conducted with other participants from outside the Treasury. They were focused on the implementation of policies, the problems faced in implementation and several solutions. All the interviews were conducted by researcher personally, so as to maintain uniformity.

4.6.2. Questionnaire surveys

Table 4.2. The number, types, response rate for surveys

No.	Institution	Sent	Received	Response Rate	Type of questionnaires
1.	State Treasury				
	• Officials	45	46	102%	Postal
	• Staff	100	18	18%	E-mail
		200	185	93%	On the spot
2.	Line ministry				
	• Finance manager	30	17	57%	Postal
	• Heads of spending units (2 locations)	60	34	57%	Postal
	• Disbursing finance officers (2 locations)	60	33	55%	Postal
3.	Providers of goods and services (2 locations)	60	31	52%	Postal
	Total	555	364	66%	

Besides the interviews, the study was supported by the responses from questionnaire surveys. According to Gray (2004), questionnaires are expected to provide data concerning variables and values that will be used to analyse research problems. Therefore, the questionnaires were set to gather views and perspectives of various groups of the stakeholders in order to measure the effectiveness of the PEM reform. Although Babbie (2008) notes the importance of knowing the size of the population, particularly if the study is aimed at generalizing results, the study is not

intended to make generalizations, therefore samples were selected from the population. Except for the Treasury staff, thirty participants were selected from each group (Table 4.2).

There are many advantages of using questionnaires, such as economy and effectiveness, greater assurance of anonymity, no interview bias, convenience and accessibility. However, there are also some disadvantages that need to be managed, such as lack of flexibility, low response rate and lack of control over environment (Bailey, 1987). To minimize such disadvantages, the questionnaires were supported by some open-ended questions. These open-ended questions provided the participants more space to express reasons, problems and other factors influencing the effectiveness of the reform. In addition, they complemented the information from the interviews. To overcome low response rates, the participants were informed of the benefits of research; as a result the response rates were fair, and even within the Treasury the rates were excellent. Moreover, the format of the questionnaires was designed in a friendly way and pre-testing of questionnaires was conducted before fieldwork. Furthermore, Likert scales and other appropriate scales such as yes/no and ranking were applied to the questionnaires.

In order to seek the perspectives of those outside the Treasury concerning the process and results of the reform, at the central level, the questionnaires were sent to the finance managers at line ministries. In addition, at operational level the questionnaires were sent to the spending unit managers, the disbursing financial officers, and the providers of goods and services within two selected locations which were Jakarta and Bogor; the same locations as the two selected treasury service offices. Furthermore, within the Treasury, in order to seek the perspectives of operational managers, the questionnaires were sent to the treasury officials across the country. In addition to

balance this information, the researcher also gave the questionnaires to the treasury staff. Mainly the questionnaires to the participants were delivered by post except for the treasury staff to whom the questionnaires were sent by email⁵³. However, the results of emailed questionnaires were unsatisfactory; only eight participants responded in a ten day period. Even after sending a reminder letter, it only added ten participants until the end of the fourth month. In the next month, on two occasions, on the spot questionnaires were distributed to the treasury staff and the results were really satisfying. Therefore, although in general the response rate was fair (66%), it looks better (76%) if emailed surveys are excluded.

4.6.3. Documentary evidence

Secondary data were collected primarily from regulations, reports, and other documents held at the Treasury in particular and at the governmental institutions in general. Obviously, in the study, the documentary evidence became the main supplement for interviews and questionnaire surveys. According to Gray (2004), the strength of documentary evidence as data sources are that they are stable, unobtrusive, exact, and wide ranging. Despite accessibility being a major problem, my background as a staff member of the Treasury helped to eliminate this barrier. The rules and regulations, the business processes, the annual reports, and financial data were collected from the Treasury. However, since to some extent, annual official reports often exaggerate performance, the information from other resources such as from the budget unit, the planning unit, and the BPK were gathered as well for comparison.

4.6.4. Focus Group Discussions

In addition to individual interviews, qualitative data were collected through the focus group discussions. The discussions with subordinates of individual interviewees

⁵³ Email addresses of the staff were acquired from the Forum Prima, an informal mailing list of DG Treasury employees; at present more than one thousand staff were members of this mailing list but only a hundred staff were selected as participants randomly.

were conducted at the Treasury after selected participants had been interviewed. This allowed further exploration of the information collected from individual interviews and gathered some additional information not available during individual interviews. Taking into account some disadvantages of this technique, such as poor control, difficulty of analysing data, and difficulty in assembling groups (Hall, 2008), participants were selected from the same levels and units. Five to seven lower level managers at the Treasury were invited to join each discussion. As subordinates of individual interviewees, they are expected to know more about the technical issues of treasury functions and can share this information in discussion. Although it was planned to conduct three focus group discussions, in practice only two discussions concerning budget execution and accounting and reporting were delivered well. Overall, the discussions in the study were less effective because abundant information was already collected through interviews, questionnaires, and documentary evidence. In addition, more information was gathered through observation.

4.6.5. Observations

One of the reform objectives is to enhance services from the Treasury given to line ministries or spending units. To measure these services, observation at operational level of the Treasury is an appropriate technique. As noted by Gray (2004), observation provides an opportunity to capture attitudes and behaviours of research subjects. Therefore in this study, in-depth and detailed information was obtained through observations, particularly to assure that certain treasury activities had changed since the reform. In practice, direct but non-participant observation was conducted. Moreover, the observations were used to offset information bias from interviews, questionnaires and documentary evidence.

The observations were focused on the interactions between the Treasury, line ministries, and other related institutions at several service levels. The process, the flow of documents, the timeliness of service activity and the behaviours of subjects were observed. At the central level, the study succeeded in observing the tripartite meeting between the Treasury, line ministry, and the BPK in discussing findings before finalizing the financial accountability reports of line ministries. At an operational level, the observation was conducted at just one conventional treasury service office. It became unnecessary to observe modern treasury service office because the conventional one applied similar procedures, except human resources. Therefore the processes of verification, payment, and accounting were traced back and financial data reconciliation was observed.

4.7. Data collection, coding framework and analysis

Concerning data collection, the qualitative data from individual interviews, focus group discussions and observations were recorded and stored using external disk. The hard-copy questionnaires were collected, stored and then used as the inputs for a quantitative analysis program. Moreover, the researcher copied government regulations, other reports and documents as secondary data collected during the fieldwork. Furthermore, in order to assist data analysis, as noted by Gray (2004), the data were categorized and coded depending on types, institutions, purposes, and classification. The coding was developed based on the research framework discussed in Section 4.2, but the data gathered during the fieldwork were also used to refine the coding framework. Therefore the coding framework, as noted by Walliman (2001), provided an adequate audit trail so as to maintain the confirmability and dependability of the study.

In data analyses, although Creswell (2003) mentions several ways of combining quantitative and qualitative data, such as merging, connecting and embedding, in this

study quantitative and qualitative data were analysed concurrently within measured indicators and variables; the inferences and conclusions were then presented. The research framework described in Section 4.2 was used as a source of theoretical propositions to seek pattern, comparison and correlation between the process and the results. Most of the quantitative data from questionnaires are nominal and ordinal, however ordinal data were converted into quantifiable interval data and then were developed into a composite index in order to support data analysis as emphasized by Neuman (2006) and Blumberg *et al.* (2005, cited in Saunders *et al.*, 2007). In addition, other discrete data, such as the budget allocations, the realization of budget allocations, and the distribution of budget realization were collected from the treasury system. Since the purpose of the study is to measure the effectiveness of the reform statistical analysis, particularly analysis to measure association and correlation between variables, such as Chi square, Spearman's rho and Pearson's correlation analysis, were applied. The qualitative data were analysed mainly to contrast, support or complement quantitative analysis. Furthermore, the results of data analysis were presented in several formats. Scatter graphs were used, particularly to present the correlation between the progress and the results. Bar charts were presented mainly to show the comparison between the stakeholder's perspectives.

Although this study did not explicitly emphasize testing a model, after figuring out the main problem by using root analysis, to assure the relationships between the components of the process and the results of treasury functions, the types of analyses such as canonical correlation and structural equation modelling were applied. Structural equation modelling (SEM) is one of the tools in quantitative analysis that is used to test the hypothesized relationships between variables by comparing model and data. According to Hair *et al.* (2010), the strength of SEM is that it can be used to explain the

relationships among multiple variables. Moreover, inductively from the practices in treasury functions as cases, the changing control arrangements were developed. In order to support analysis and presentation, MS Excel, SPSS and AMOS as software programs were used. Overall, the combination of these analyses supported sorting, displaying, and presenting the conclusions.

4.8. Ethical issues

Ethics approval was obtained from the Social and Behavioural Research Ethics Committee at Flinders University. The interaction with humans as participants took place, particularly during interviews, focus group discussions, and observations. The researcher introduced himself as a research student from Flinders University and also as a staff member at the Ministry of Finance, explaining the aims of the study and the benefits of research to participants and institutions and to the management of public expenditure in the future. Moreover, the researcher asked individual participants' permission to record all interviewing processes and proposed the Treasury's permission to collect information within the institution. The participant consent letters were provided to participants, although verbal consent is culturally more common in Indonesia. Since no consent letter was sent to the respondents of the questionnaire survey, the completion and returning of questionnaires was considered as consent, as indicated in the covering letter attached with questionnaires.

4.9. Summary

This chapter has presented arguments for selecting mixed methods and design for conducting evaluation research into the PEM reform in Indonesia. A research framework was developed to show the theoretical propositions of outcomes and process that were measured and to explore the factors contributing to the achievements. Main stakeholders such as the Treasury, line ministries and agents were selected as research

subjects. Moreover, in order to gather information, the numbers of participants in groups were chosen by using probability and non-probability sampling.

In consideration of the scope of the PEM reform and some constraints, data and information were collected through a combination of interviews, focus group discussions, observation, questionnaires and documentary evidence at several levels. The selection of approaches and techniques ensured high response rates and the comprehensive and detailed information needed for qualitative and quantitative analyses. In the next chapters, the results of data analyses will be presented and discussed.

CHAPTER 5

DOES THE PROCESS OF PEM REFORM MATTER?

5.1. Introduction

Before presenting the outcomes, the process of PEM reform will be explored. It is argued that successful process will lead to successful outcomes. Process is needed to put the new proposed principles and concepts of PEM into practice, so in terms of strategies, it is important to know how it is set and applied, what kinds of components are considered, how these are applied and how they interact. To answer these questions, this chapter will be divided into two main sections. It will begin by showing the particular strategies of applying the new PEM approaches. The components of the PEM process and their results will be discussed subsequently.

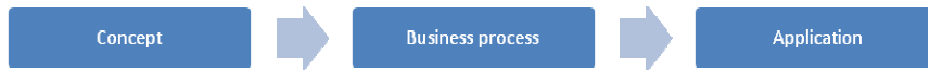
5.2. Strategies for implementing the new approaches to PEM

In Chapter Three, three general strategies of PEM reform have been presented; but how the Ministry of Finance in general and the Treasury in particular incorporate new treasury approaches into operational policy has not been discussed. By using a linear approach to change, concepts are transformed into rules and regulations, business processes and standard operating procedures. But in the era of IT, the procedures are not the end of the story, application of a computerized system is required as well. Nevertheless, realizing the concepts needs soundly planned change, particularly when introducing isomorphism into an organization by way of procedures and application

systems, as suggested by Bedingham and Thomas (2006). It should be noted that in practice each treasury function followed its own route, as presented in Figure 5.1.

Figure 5.1. The types of implementation of PEM strategy

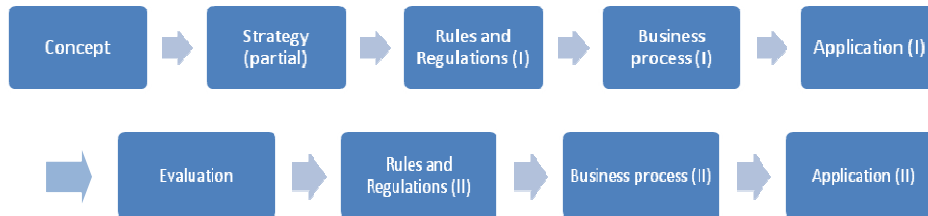
Type I:



Type II:



Type III:



Type IV:



5.2.1. Type I: Concepts – business process – application

In budget execution, the Treasury applied an implementation strategy that was different from a sequential linear approach. At the end of 2005, instead of waiting for governmental regulations to be published, the Treasury decided to issue ministerial and treasury guidelines for budget execution⁵⁴ (MoF 2005a, DG Treasury 2005a; 2005b). These policies were adopted in the expectation that governmental regulations would be issued promptly, but by mid-2009 they had still not appeared; they were followed by stand-alone computerized applications, such as for payment orders in spending units and for payment approvals in treasury operational offices, showing that the Treasury

⁵⁴ The new guidelines focus on the interpretation of segregation of functions between the Treasury and line ministries particularly at operational level. The main reason is to present a quick win of the reform in terms of the implementation of shifting pre-payment verification to spending units. Others are the continuing treasury services and the long period to issue a governmental regulation. In practice, although they were temporary regulations, the regulations are still applied.

interpreted the concepts in the Law directly for operational guidelines, and then for the development of applications. However, it can be assumed that this approach hampers the continuity of reform, because in practice some officials and staff considered that the existing programs already reflected the expected outcomes of the reform, thus becoming another hindrance to change. In addition, it was not easy to apply the Law to technical guidelines⁵⁵. Moreover, bureaucracy bashing – a term suggested by Beatty and Ulrich (1991) for getting rid of unnecessary policies, procedures or regulations which are not in line with the spirit of reform – was hard for the Treasury to accept. Furthermore, given that the structure of units under the Ministry of Finance follows a work-flow and functions model, to some extent the implementation strategy depended on changing the budget unit⁵⁶. So in implementing the strategy of budget execution, some adjustments had to be made in consideration of the existing system, the continuity of services, and the connectedness to other units, suggesting that the implementation strategy needs good coordination between connected units or functions. Moreover, the desire for a quick win in reform influenced the implementation strategy as well. Although it is very important to maintain the spirits of reformers and followers, steps should be taken carefully.

5.2.2 Type II: Concepts – strategy (partial) – rules and regulations – business process – application

As for cash management, the Treasury is mandated by the Law to manage cash effectively by implementing TSA, improving cash planning, fulfilling cash-mismatch, and developing a computerized cash flow system. But unlike its strategy in budget execution, the Treasury did not change the system in a hurry, to allow for new concepts, non-existent prerequisites and absence of pressure to implement the expected system

⁵⁵ To illustrate the new treasury regulation concerning the limitation of cash advance which was issued after reform did not have a long life because of receiving many complaints in the implementation (DG Treasury, 2005a).

⁵⁶ Because the budget unit itself focused more on reform internally in initiating performance-based budgeting, the Treasury was unable to do much besides waiting for the progress of reform in the budget unit.

quickly, focussing more on understanding the new concepts first. Later, in 2007 the governmental regulations concerning cash management were delivered (MoF, 2007a). The difficulty in understanding new concepts was acknowledged by a high-level official who noted that it took three years to produce the government regulations on cash management.

Following the governmental regulations, some treasury regulations⁵⁷ were issued. Then computerized applications, such as for monitoring of cash transactions, cash position, and cash planning were developed. However, to implement TSA, as well as taking the time to understand the concepts, comprehensive and integrated actions of sub-functions in cash management were needed; many of them having to be taken linearly or concurrently. Although some strategies, such as improving the orderliness of bank accounts and the integration of treasury accounts to TSA, were relatively clear, others were not. Therefore even though a linear approach was applied to cash management, to some extent there was a problem in developing integrated actions, due to the involvement of sub-functions, sub-units, or sub-systems. Moreover, the smooth agreement during law enactment was not followed by smooth agreement during the preparation of lower-level regulations⁵⁸, confirming the difficulty of setting up an integrated plan with many interrelated sub-functions, when sometimes the setting of priorities is disrupted.

5.2.3 Type III: Concepts – strategy (partial) – rules and regulations – business process – application – evaluation

In accounting and reporting, the Treasury also took different routes to implement the strategy, bearing in mind various conditions, such as the existing cash accounting system and the capacity of the public institutions in particular. In the early stages of the

⁵⁷ Even the regulations such as the initial implementation of TSA and the management of bank accounts were issued before the issuance of governmental regulation (DG Treasury 2008b).

⁵⁸ To illustrate the discussion between the Treasury and the BI concerning the remuneration for treasury bank balance took time, although the agreement was reached later.

reform, the Treasury clearly announced a shift from cash towards accrual accounting as the main strategy (MoF, 2005b), while not explaining what steps to take to make this change, which was just a guide for issuing policies. Later, governmental regulations of public accounting standards were issued in 2005⁵⁹ (MoF, 2005b), followed by ministerial and treasury regulations and the implementation of a computerized double-entry accounting system (MoF, 2005b; 2005d; DG Treasury, 2008c). Importantly, it was influenced initially by an existing application system⁶⁰ and by massive accounting training programs. These achievements were evaluated. Later in mid-2009, the Treasury was preparing the draft of accrual accounting standards; an accrual accounting system is expected to be implemented in 2015. So in implementing accrual accounting, instead of jumping in immediately to achieve the ends of accrual accounting, a modified accounting system was gradually introduced. This suggests that the evaluation of progress and circumstances and the adjusted strategies are essential during reform. Announcing the main strategy at an early stage, however, contributes to the awareness of stakeholders and sets the guidelines for the next steps.

5.2.4 Type IV: Concepts – strategy (partial) – business process/ application (integrated) – rules and regulations

One outcome of the reform will be the establishment of an integrated financial management information system⁶¹ (MoF 2002a). Within Treasury, the computerized system is expected to interconnect all treasury functions, in terms of budget execution, cash management, and accounting and reporting. However an integrated system needs clear business processes and procedures in each related unit. Due to the lack of integration of strategies and implementations mentioned earlier, the Treasury found

⁵⁹ Compared with other governmental regulations, this is more difficult due to the prerequisites to establish the independent public accounting standards committee and to be approved by the BPK. The standards committee was established in 2004.

⁶⁰ As noted in Chapter III, even before the reform, the pilot project of double-entry accounting system has been applied so that the Treasury did not start from scratch but some adjustments to the computerized system were applied.

⁶¹ The computerized system integrates business processes and procedures not only within the Treasury but also between the Treasury and the budget unit.

some difficulties in integrating the system. Later, due to the limited time allotted to the project, the Treasury made another advance. Instead of waiting for all the rules and regulations as detailed explanation of new concepts, the Treasury worked to develop a business process and a computerized application concurrently. The guidelines for the development of the application were simply those in the Law. Rules and regulations would be issued and adjusted later after the establishment of the integrated computerized system; as noted by a Treasury official:

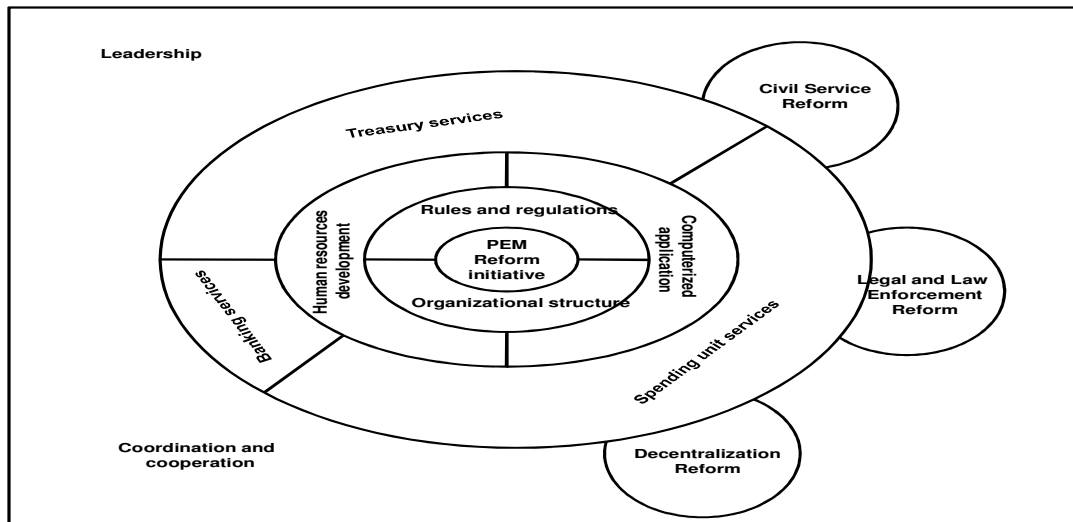
...instead of issuing governmental regulation twice (and considering) the implementation (of IFMIS), although it has not been implemented fully, we will prepare (the draft) of government regulation (concerning budget execution) parallel with (the implementation)... (The Director of Treasury Transformation – TRS02)

However, it raises the question of how to implement the Law in a computerized system when transforming the Law into detailed regulations was difficult and conflicted. The integrated computerized system had not been developed by mid-2009; which suggests that the Treasury faced more difficulties than in applying a linear approach.

Hence, based on the implementation of strategies within treasury functions, some treasury functions were able to be changed through a linear approach, while some were not. Several factors contributed to the differences in implementation, such as the clarity of concepts, the integrated planning process, the detail of sub-functions, the connectedness and dependence on other units, the adequacy of human resources, the initial computerized system, and the availability of time. However, the ways that the Treasury further distilled the concepts into detail and whether the implementation of strategies contributed to sound process have not yet been explored. In the next section, the internalization of reform in terms of the progress of PEM process will be described.

5.3. The Components of the PEM Process

Figure 5.2. The Components and layers of the PEM Process



The process in terms of efforts made by the Treasury in pursuing the expected outcomes as mandated by the Laws will now be explored. According to Shanley and Peteraf (2006), besides describing the actions to accomplish organizational aims and the exploration of the sequences of events, process is the expression of a causal logic behind an outcome. Therefore the components representing a group of actions and contributing considerably to the achievement of outcomes are defined and discussed here. Figure 5.2 presents the framework of PEM process, divided into three layers⁶² according to the sequence of process, the general strategies of reform and the connectedness of components in each layer. Although the outcomes of treasury functions will not be explored in this section, the differences in the last layer between previous and current services will be described. However, leadership, and coordination and cooperation are positioned outside of all the layers, giving support to all components. Other external factors, such as reforms of the civil service, legal and law

⁶² The first layer is to issue rules and regulations and set organizational structure that focus more on the institutional arrangements. The second is concerning the development of human resources and computerized treasury systems which focus on how the new institutional arrangements can be run. The last is the level of services in expenditure management which is delivered by the Treasury, spending units, and appointed banks as treasury agents.

enforcement, and decentralization, that interact directly or indirectly with the level of services will also be elaborated. To evaluate the performance of each component in the PEM process, some key indicators will now be examined and discussed.

5.3.1. Grand Design and Strategy of Reform

Section 5.2 suggests that a grand design and strategy are needed to actualize the reform initiatives at an operational level. Regarding the implementation of PEM strategies, 86% of the treasury officials were ‘quite satisfied’ or ‘satisfied’ with the progress. But, fewer than 70% of the treasury officials agreed that they were well-documented, clear and accessible. The findings indicate that there are quite significant differences between the criteria of the grand design and the implementation of strategies as their realization; the grand design and strategies need to be explored further in terms of good documentation, accessibility, and clarity. Only 59.1% of the treasury officials believed that the grand design and strategy was well-documented. The figure is significantly different compared with the satisfaction level about strategy implementation mentioned above. A significant proportion of the treasury officials considered that it was unavailable, undocumented or unknown. Our fieldwork shows that the grand design and strategy integrating all treasury functions and presenting comprehensive action plans was absent except in the White Paper and the IT strategy⁶³. In practice, the PEM reform at the Treasury was guided by the White Paper, the road map 2004 – 2009 of the Ministry of Finance, and the annual plan of the Treasury (DG Treasury, 2008i). Nevertheless, it is likely that the annual plan presented the compilation of action plans of each treasury function instead of the real integration and connectedness of all actions planned within the Treasury. The linkage between the

⁶³ The White Paper only presents the general strategies and the IT strategy provides a partial strategy in treasury management only; even the IT strategy was unsuitable as guidance fully.

annual plan of the Treasury and the ministry's strategic plan was questionable⁶⁴. All this suggests that the anticipated well-documented grand design of the reform was not available, supporting the previous finding that strategies existed only partially. This presumes that even if a grand design exists and is not promulgated adequately to all stakeholders, the possibility of implementation failure is greater.

Although a well-documented grand design was unavailable, nevertheless 63.6% of the treasury officials believed that the grand design and strategies were accessible. This figure, however, is better than the agreement about good documentation. However, the percentage of the officials who considered that it was inaccessible is quite significant. They believed that it was due to the poor performance of regional officials in disseminating information and treasury policies; it allegedly caused resistance from staff, increasing scepticism and apathy about change, fatigue in following reform and even absence of contribution to reform. The findings suggest that reform in terms of grand design and strategy should be conveyed to and understood by all stakeholders; this is more challenging when the institution is large and has many offices and staff spread across the country, like the Treasury.

But many of the treasury officials (68.2%) agreed that the grand design and strategy were clear, a higher acceptance than their opinion on documentation and accessibility. Some of the officials considered that it was not clear yet. The lack of agreement to some extent between the initiators and policy makers on the implementation of an accrual system allegedly contributed to the lower clarity about the grand design and strategies. In addition, some interviewees worried because, until mid-

⁶⁴ Later to some extent the connectedness was strengthened by the implementation of key performance indicators (KPIs) within the Ministry of Finance (DG Treasury, 2009k). The KPIs represent the prioritized indicators of selected sub-units under the Ministry. It is related to the attempts of the Ministry to apply balance score cards in the public sectors.

2009, the Treasury was looking for an appropriate best practice or treasury model⁶⁵. However, the reform strategies for sub-treasury functions were considerably clearer, because in regular coordination meetings the specific strategy was explained well. It can be inferred that grand design and strategy were delivered more by oral presentation than through documents, explaining the agreement of some officials concerning the clarity of grand design and strategy. Moreover, it demonstrates that, although the approaches are already stated in the Law, it took time just to choose the appropriate practices for implementation in the country. From the perspective of external parties, there was more concern about the problems facing the implementation phase, in terms of a detailed action plan and changing mindset, than about the availability of the grand design and strategy itself.

The discussion shows that instead of being presented in a well-documented grand design and strategy of PEM reform, the framework of reform initiatives was presented by oral dissemination and as a partial strategy of treasury functions, affecting the accessibility and clarity of the existing grand design and strategy. Even so, the extent to which the clarity of grand design and strategy influences the progress of PEM process will be discussed in the following sections.

5.3.2. Rules and Regulations

The formalization in terms of law enactment, as shown in Appendix 2, presents some changes to the initial concepts of reform. In this section, the next hierarchy of regulations⁶⁶ will be elaborated in terms of the issuance of governmental, ministerial, and operational regulations. Following the passing of Laws, as further explanation, some governmental regulations still have to be issued no more than one year after the

⁶⁵ Some officials noted that the Ministry of Finance was to apply new approaches like the practices of performance-based budgeting in South Africa, cash management in France, and accrual accounting in Australia or New Zealand.

⁶⁶ The most interesting aspect of public policy making in Indonesia is the heavy reliance on a hierarchy of regulations which are as follows: laws, governmental regulations, presidential regulations, ministerial regulations, and directorate general regulations (IMF, 2006).

Laws (MoF, 2003a; 2004a; see Appendix 6). Based on data, approximately 80% of the groups of stakeholders (77.7% of the treasury officials, 82.1% of the treasury staff, 81.3% of the finance manager at ministry level, 79.4% of the spending unit managers) were 'quite satisfied' or 'satisfied' with the existing treasury rules and regulations; even the satisfied disbursing finance officers (93.1%) was bigger than that of the other groups. It suggests that in general, treasury management has been backed up by regulations. In this section, the progress of the clarity, adequacy, and timeliness of rules and regulations will be explored.

Not only in the grand design but also at the level of rules and regulation, clarity is really essential, because it connects reform initiatives with services. It addresses whether rules and regulations as formal policies are understood by all stakeholders. More than 78% of the stakeholders considered that treasury rules and regulations were clear although the Treasury (78.8% of the staff) has a lower acceptance than the line ministries (81.3% of the spending unit managers and 91.2% of the finance manager at ministry level). Treasury considered that the poor clarity was due to lack of coordination between units under the Ministry of Finance at the time when they issued particular regulations. In addition, it was allegedly affected by unclear concepts and lack of connectedness of the business process between units. Consequently it created overlapping or conflicting regulations in practice; even to the extent of some confusion and different services at the operational level, showing the need for a nexus between rules and regulations and coordination and cooperation. So it can be deduced that although, in general, rules and regulations were issued relatively clearly, in some cases multiple interpretations and conflicted regulations persisted, consequently affecting the level of services. In addition, it indicates that internal stakeholders think more critically

than other parties outside the institution; they are likely to see more clearly whether regulations are inadequate, inapplicable, or conflicting.

Besides these high satisfaction levels, the majority of the stakeholders considered that the regulations were adequate in supporting new treasury management. But, their perspectives on the clarity of rules and regulations have a higher acceptance, even though significant disagreement exists. Internally only 68% of the treasury staff agreed that the rules and regulations were adequate, although the perspectives of line ministries are better (76.5% of the spending unit managers and 74.2% of the disbursing finance officers) except for finance managers (62.5%). It can be inferred that due to their roles in compiling and presenting the ministry's financial accountability reports, finance managers expect the regulations to guide spending units in managing resources and in delivering accountability to a greater extent. Treasury officials acknowledged that inadequacy of rules and regulations were caused by unadjusted old and transitional versions; some noted that the regulations did not provide adequate guidelines to line ministries. In addition, some regulations were out of Treasury's control because they were issued by other units. All this suggests that, although rules and regulations supported treasury management in general, the persistence of transitional, unadjusted and un-synchronized regulations contributed to the view that regulations were inadequate. This strengthens the connectedness between the implementation strategy and the adequacy of rules and regulations.

Considering the hierarchy of regulations in Indonesia, approximately 15 governmental regulations⁶⁷ have to be issued in one year following the enactment of the Laws. Some ministerial and treasury regulations were issued subsequently, along with the governmental regulations, but others were not (Table 5.1). Moreover, the issue of

⁶⁷ In practice, five regulations were issued on target, seven were issued over the targeted year and three regulations have not been issued until mid-2009.

some treasury regulations likely failed to support a sound budget cycle⁶⁸ that affected PEM at large. It indicates that in certain areas the Treasury faced difficulties in putting the Law into detailed effect and to impose a full linear approach following the hierarchy of regulations. As one of the treasury official puts it:

...the difficulty is how to imagine something from a big idea which has to be transformed into more specific level, until it can be implemented. It is an art to think something which has not been implemented (in Indonesia) before... (The Inspector General of MoF, the reform initiator – MOF01)

Table 5.1. The Hierarchy and the Issuance of Treasury Rules

No.	Law and Governmental Regulation	Ministerial Regulation	Treasury Regulation
	The Public Treasury Law (issued on 14 January 2004)		
1.	The GR concerning Budget Execution (not issued until the mid of 2009)	The MR concerning the guidance of budget execution (issued on 27 December 2005)	The TR concerning the mechanism of budget execution (issued on 28 December 2005)
2.	The GR concerning Cash Management (issued on 16 July 2007)	The MR concerning the trial implementation of TSA (issued on 23 August 2006)	The TR concerning the technical guidance of trial implementation of TSA (issued on 23 August 2006)
		The MR concerning the bank account management (issued on 13 June 2007)	The TR concerning the technical guidance of bank account management (issued on 27 June 2007)
		The MR concerning the guidance of receiving/ disbursing finance officer (issued on 9 May 2008)	The TR concerning the technical guidance of receiving/ disbursing finance officer (not been issued until the mid of 2009)
3.	The GR concerning Public Accounting Standards (issued on 13 June 2005)	The MR concerning accounting and reporting system (issued on 20 July 2005)	The TR concerning the preparation and presentation of financial accountability reports (issued on 29 July 2005)
		The MR concerning the chart of accounts (issued on 28 January 2005))	The TR concerning the technical guidance of the chart of accounts (issued on 19 December 2005)

Source: the Ministry of Finance

Therefore although the majority of the stakeholders were quite satisfied with the clarity and adequacy of treasury rules and regulations, from the perspective of the policy makers and regulators it was not easy to issue governmental regulations in the year after the Laws were enacted. There were some obstacles, such as the lack of understanding of new concepts and expected practices, difficulty in sharing concepts and knowledge, and

⁶⁸ To illustrate, the operational guidelines for budget execution and the chart of accounts were issued in December; it was too close to the new budget year. As a consequence, the dissemination of regulations to all stakeholders was more limited. Allegedly this practice influenced poor connectedness between the budget preparation phase and the budget execution phase.

the complexity and adaptability in the existing circumstances; in addition to multiple interpretations of certain articles in the Laws, the nexus with unchanged regulations, and lack of existing supportive bureaucracy. This strengthens the relationship between the reform concepts and the component of rules and regulations. However, it raises the question whether this satisfaction level influences that towards other components and layers of the process.

5.3.3. Organizational Structure of the Treasury

Another component at the first layer is the organizational structure reflecting the strategies and functions of the Treasury. After the reform, the organization was restructured several times, to avoid duplication and to focus on the main functions. Nevertheless, it is argued that the Treasury is still looking for a firm structure. Reorganizations were happening, particularly at the centre of the structure⁶⁹. Many treasury officials (78.3%) and staff (72.1%) felt ‘quite satisfied’ or ‘satisfied’ with the organizational structure of the Treasury. The perspectives of the treasury officials are relatively similar toward the rules and regulations but the staff had different opinions, their satisfaction being significantly lower. This indicates that the organizational structure has not supported treasury services at the operational level. Therefore the organizational structure of the Treasury will be elaborated, in terms of the scope of new treasury functions, the support of policy making process, linking with institutional transformation and the establishment of modern treasury service offices.

Although many officials were satisfied with the organizational structure, one official explained that the approach of “structure follows function” seemingly did not

⁶⁹ In the centre, the Treasury was supported by 8 sub-units. The Treasury had three layers of office which are one central office, 30 regional treasury offices at the capital of provinces, and 178 treasury operational offices at districts and municipalities (DG Treasury 2008i). But in some districts or municipalities, the Treasury did not open its branches.

work well⁷⁰ in the Treasury. It signifies that the Treasury as an institution did not match a place that covered all treasury functions, mainly because of the span of control and the workloads of units. So this implies that there is a trade-off between organizational structure by function and by manageable workloads. On the other hand, other officials and staff were worried that the structure was poor in managing cash receipts⁷¹ considering that no specific unit within the Treasury handled this function. It can be inferred that to some extent the Treasury was ambiguous concerning the function of payment receipt management as one of its functions or it can be assumed that the Law itself is not adequate to explain the main functions of the Treasury clearly, proving that in a certain area, there was a poor connection between reform initiatives and organization structure at the first layer. Moreover, although some treasury functions were deleted from the Treasury, it did not make the unit become slimmer⁷², which shows that the claim is inaccurate that the PEM reform in terms of reorganization made the Ministry of Finance slimmer. It might have been true when the first reorganization was executed but subsequent reorganizations made it bigger again. In addition, others considered that reorganization occurred too often during the five years after the reform, making the stakeholders doubtful about the direction of reform. All this indicates the poor connectedness between the grand design and strategy of reform and the organizational structure.

During reform, policies are issued more frequently than in normal times, raising another concern of how the Treasury as a type of machine bureaucracy handles this situation. Ideally it should not be a huge problem considering that reform initiators

⁷⁰ After the Laws were enacted, all treasury functions including debt management and asset management were put under the Treasury, but later considering workloads, debt management and asset management were excluded from the Treasury.

⁷¹ Since reform, one sub-unit at treasury service office responsible for maintaining revenue transaction data was eliminated but no other specific unit was appointed to manage this function.

⁷² Primarily the Treasury focused on the function of budget execution, cash management, accounting and reporting but later other sub-units under the Treasury were established in order to manage public investment and financial management of public service agency. Others such as the treasury system and the treasury transformation units were added then.

became the leaders of the organization. In response to this concern, during the second reorganization in 2006, a sub-unit, the Treasury System Unit⁷³ was established (MoF, 2006c). However, it has been found that the performance of this Unit did not present optimal results; many old regulations have not been replaced by the new ones, although some have been drafted. It appears that the responsibility of the Unit was too heavy which is from setting strategy to developing an application system, while its tasks were not supported by adequate human resources, so the Unit tended to focus on operational issues more than on strategic and conceptual ones. In addition, the release of new regulations was impeded to some extent because the policy proposal had to be approved⁷⁴ by the reform initiator located at another unit under the Treasury. Although the organizational structure was developed, lack of power of the existing structure contributed to the late issue of regulations, the implication being that the reform initiators found it difficult to trust the formal structure.

As a consequence of reform, the Treasury has to support transformation⁷⁵ of a new treasury management internally and externally. However, in practice, the Treasury faced a dilemma, particularly due to human resources and time constraints. On the one hand the Treasury had to understand and deliver new routine tasks in treasury management, and on the other they had to train all stakeholders in treasury management using these new tasks in an ad-hoc manner. This needs sound change management. In the third reorganization in 2008, the Treasury established another sub-unit, the Treasury Transformation Unit. However, it seems that transformation is defined narrowly, in terms of transforming the future integrated application systems. Moreover, the responsibility to develop future treasury application systems was unclear, because the

⁷³ The Treasury System Unit is responsible for preparing treasury strategy, issuing rules and regulations, developing application systems, setting the functional position of financial officers, managing the project of integrated financial managerial information system.

⁷⁴ The procedure was intended to monitor every proposal and check whether it was in line with the reform spirit.

⁷⁵ The Treasury has to disseminate reform in terms of concepts, rules and regulations, and deliver training programs whether to internal staff or to spending units.

establishment of the Unit did not eliminate the role of other units in developing application systems. So although transformation is already a concern for reform, it needs to be interpreted comprehensively instead of as merely an application system. In addition, it implies that sometimes duplication of functions is hard to avoid in restructuring the organization.

As noted in Chapter Four, the aim of establishing the modern treasury system is to ensure clear, fast, and clean services. As a result, the application of a new layout that segregates front, middle, and back office functions within modern office accommodation presents a positive synergy. Attempts to improve the transparency of interaction between treasury staff and clients produced good results as well; many interviewees agreed that they gave better service and more satisfaction than conventional offices. However, whether all these sacrifices and costs provide proportionate benefits is questionable. Many officials acknowledged that the efforts to establish modern offices absorbed many resources, and much time and energy; even, it was alleged, contributing to poor achievement of other priorities⁷⁶. Interestingly, others argued that the services and satisfaction levels, when applying similar standard operating procedures, were relatively similar in modern and conventional offices⁷⁷. Nevertheless, this does not mean that the new procedures provided perfect services⁷⁸ or that similar procedures presented similar services⁷⁹, signifying that the problem is the uneven understanding between officials and staff rather than lack of clarity of the new procedures. However, it seems that the efforts produced good performance, particularly during the early stage of implementation, some officials and staff believing that

⁷⁶ The complaints were voiced by all sub-units at the centre because they needed more resources, particularly qualified human resources, to deliver new roles after the reform.

⁷⁷ It is supported by the observations; the conventional treasury service office with similar procedures delivered the average of payment approval time and of financial data reconciliation that were less than the targeted time.

⁷⁸ At least one case concerning transaction fraud occurred at one modern office. Lack of control allegedly caused the fraud.

⁷⁹ Line ministries complained that different offices served different services and treatments, even between modern offices.

performance declined slightly later⁸⁰. It can be inferred that the Treasury faced a problem of motivating staff in modern offices. In addition, the dichotomy between modern and conventional offices creates mixed results; positively it motivated staff to improve their skills and knowledge and support changes, but negatively many staff felt excluded and unmotivated⁸¹. Therefore, although the establishment of modern treasury service offices has produced good results, some future consequences were not considered deeply enough.

In general, although the stakeholders were satisfied with its organizational structure, the Treasury did not have a clear agenda concerning the future organizational structure in supporting the new treasury functions, since there had been three reorganizations since 2004 and these are likely to continue in the future. The evolving structure of the Treasury reflects the Treasury's efforts in defining its new roles after the reform; the reform pushes the Treasury to develop a sound treasury system, to transform the values and knowledge, and to provide better treasury services. Nevertheless, the findings show the connectedness between the grand design and the organizational structure. It also confirms the connectedness within the first layer between the rules and regulations and the organizational structure.

5.3.4. Human Resources Management at the Treasury

Human resource staff are key as they occupy positions within the structure, deliver treasury management operationally, and then interact with other stakeholders in providing services. However, only 51% of the treasury officials and 65% of the staff felt 'quite satisfied' or 'satisfied' with the management of human resources. This is

⁸⁰ Many parties alleged that due to downsizing the number of staff, the workload was greater at the modern office than at conventional one. In addition, some of the staff considered that additional remuneration was not equal comparatively to the burden which had to be borne. They compared the tasks and remuneration of unselected staff that were posted at regional treasury office; they considerably had fewer or no tasks but relatively got similar amount of remuneration.

⁸¹ Some officials conclude that the decision to impose modern offices is less effective and efficient. They suggest that the conventional office with new standard operating system is more appropriate and can reduce any stress because many staff are involved in the system.

significantly lower than the perceptions of officials and staff of the organizational structure. Moreover, the dissatisfaction level of the staff (20%) was higher than that of the officials (9%), a finding shared by many interviewees. It presumes that to some degree the PEM reform found shortcomings⁸² in internal human resources. The Treasury had been aware of these problems ever since reform was launched; they had plenty of staff quantitatively but were considered of poor quality:

...it is a dilemma for us, on one side we want a quick progress, but on the other side (the quality of) human resources that are available are only these...we cannot do anything. It is our obligation to fix and empower them... (The Executive Secretary of Treasury, the reform initiator – TRS01)

Hence this section will explore the attempts of the Treasury to increase the awareness of officials and staff of the reform and to enhance the knowledge and skills in new treasury management.

Although the overall level of satisfaction of human resource development is low, generally the treasury officials (78%) and staff (77%) felt 'quite satisfied' or 'satisfied' that, in their offices, they were willing to change and learn the new treasury management system. Moreover, they (45% of the officials and 57% of the staff) acknowledged that more than 80% of their staff or work-mates in their offices wanted to change and learn, although another 15% of the officials and the staff stated that less than 50% of their staff or work-mates did so. The positive aspect is that the proportion of officials and staff who want to learn is higher than those who don't. So many attempts were made by the Treasury to enhance awareness of stakeholders through socializing and disseminating information⁸³; the result was that all of the stakeholders within the Treasury and line ministries acknowledged that these efforts increased their awareness and knowledge effectively. In addition, the Treasury (60.9% of the treasury officials and

⁸² There are primarily two main problems related to human resources management which are the quality and quantity of human resources and the uneven distribution. The Treasury had approximately 10,826 officials and staff across the country (DG Treasury, 2008i).

⁸³ It is expected that officials, staff, and other stakeholders learn the new values, the new norms, and the required behavior patterns of the changed treasury system.

47.5% of the staff) believed that these disseminations were also effective, not only in increasing awareness, but also in changing attitudes and behaviour of participants concerning treasury practices. All this signifies that, basically, the human resources within the Treasury were potentially available to support the reform, although it implies that officials and staff across the regions and the offices were uneven in quality. As a consequence, the Treasury needs more effort to support and maintain good officials and staff, to motivate poor officials and staff, or to expect the good ones to enlighten and empower the poor ones. However, it does suggest that socialization and dissemination contribute positively to the awareness and knowledge of stakeholders.

Stakeholders agreed that training programs arranged by the Treasury enhanced their skills and knowledge⁸⁴. The Treasury (65.2% of the treasury officials and 46.3% of the staff) acknowledged that it was very useful, although only 12.5% of the finance managers, 20.6% of the spending unit managers, and 25.8% of the disbursing finance officers considered that it was really useful. In addition, the stakeholders felt generally that the programs were good; the programs were more appreciated by treasury staff than by other stakeholders. However, the capacity of the Treasury to train all officials and staff is evidently limited⁸⁵. Although the Treasury later developed e-learning through the treasury website, the results were uneven, since the frequent changes of regulations affected the training materials. In addition, as another consequence of the reform, new knowledge and skills are needed, particularly when applying new concepts or new approaches⁸⁶. All this suggests that the existing training programs were generally effective in enhancing new skills and knowledge although most of them focused on the

⁸⁴ The Treasury improves human resources seriously by combining soft and hard competency, delivering concepts and practices training, covering the whole budget cycle, and attending domestic and overseas training programs (DG Treasury, 2008i).

⁸⁵ To illustrate in 2007, the Treasury just delivered the training programs which covered approximately 3,000 officials and staff across the country; even some programs were conducted by other units under the Ministry of Finance or delivered by external educational and training institutions.

⁸⁶ But in practice specific knowledge and skills were difficult to provide by training providers in the private sectors.

Treasury instead of on line ministries. Moreover, it reveals that even within a huge institution, the internalization of reform initiatives in the form of internal training programs faced some constraints. Although the Treasury realizes that it takes time to achieve the expected outcomes, it suggests that for training, a grand design or strategic plan is necessary, with adequate and continuing training programs. In addition, this supports the connectedness between the grand design and human resources management.

Importantly, based on calculating the workload of the new expected treasury system and the need for human resources, the Treasury would be optimal if it had only 5,000 officials and staff⁸⁷ (DG Treasury, 2008i). Nevertheless, the Treasury was unable to take further action⁸⁸ due to the rigid regulations of civil service management. In addition, the idea of deploying the excess number of staff to line ministries was not so attractive, as the finance manager writes:

...if they (excess number of the treasury staff) are deployed to line ministries, maybe it is a good way out. The problem is that the Ministry of Finance has implemented new remuneration system; it will be disincentive... (The Finance Manager at ministry level – FM03)

It can be inferred that the policy of applying the new remuneration system without considering the number of staff and their workloads concurrently and comprehensively caused subsequent problems, particularly when applying the right-sizing policy. It suggests that the objective of PEM reform to change the roles of the Treasury should consider further its implications for human resources.

All this demonstrates the significance of empowering human resources during reform. In addition, it confirms the value of socialization and training programs in enhancing the awareness, knowledge and skills of stakeholders. But the progress of human resources development was thought less optimal due to the limitations of

⁸⁷ Compared to the existing number which was approximately 11,000, it became another potential problem.

⁸⁸ Rather than looking for any breakthrough policy, the Treasury took a natural reduction in terms of normal retirement.

trainers, the huge number of staff within the Treasury, poor strategic planning and less effective e-learning, meaning that the training programs were focused on the Treasury internally, although it suggests that the knowledge and skills of treasury officials and staff should be enhanced evenly.

5.3.5. Computerized Treasury System

Another factor at the second layer concerns computerized treasury applications, which have become essential as many services depend on them. Generally many of the application systems were developed from the business processes of sub-treasury functions. However, some treasury officials saw that the treasury concepts were unsuited for full application, due to the limitations of computerized systems:

...the treasury concepts are fine but the computerized application was not...I feel that the concepts are adjusted due to the limitation of application...I agree that problems in application should be solved but it does not mean that the treasury concepts are adjusted... (The Head of operational treasury office – TRS23)

Others emphasized not only the importance of a linear approach but also the function of application systems of simplifying the business process. This suggests the lack of clear IT policy, particularly in supporting the future treasury business processes. To explore the progress further, some indicators of user friendliness, flexibility, ease of maintenance, and integration of the system will be discussed next.

User friendliness is measured because the extent to which the treasury services are delivered will depend on the ease of operating application systems. The stakeholders felt that the user-friendliness of the computerized system was ‘good’ or ‘excellent’ (76% of the treasury officials, 77.9% of the treasury staff, 86.6% of the finance managers, 76.5% of the spending unit managers) and the rest considered that the application system was ‘fair’. The application systems, in accounting and reporting especially, were appreciated more by the internal and external stakeholders; one

regional treasury official stated that a user-friendly accounting system is one that can be operated by an ordinary officer at the spending unit without further understanding the complexity of accounting concepts. This suggests that less qualified officers can probably use a user-friendly application system. It confirms that the application systems have supported the new treasury system operationally.

The stakeholders considered that the flexibility level of application systems was 'quite good'. Some of them (47.8% of the treasury officials, 62.4% of the treasury staff, 73.3% of the finance manager, 70.6% of the spending unit managers) even felt that the flexibility was 'really good' to 'excellent'. However, these perspectives are lower than those for user-friendliness; even the perspective of the treasury officials is significantly decreased. In addition, although all of the stakeholders needed more flexibility in the application systems, they also emphasized the need for security of application more than flexibility, due to risks of fraud. Moreover, the treasury officials acknowledged that poor comprehensiveness in solving IT problems affected the level of services as well:

...when the finance ministerial regulation is amended, we wait until the operational guidelines and application are adjusted ... we do not want to take any initiative, previously it became double or even unrecorded transactions ... (The Head of treasury service office – TRS12)

...when we just adjusted an application due to a change in treasury regulation, and we finished it, another change happened. So to have an established treasury system is quite difficult to be achieved in our system... (The Director of Treasury System – TRS08)

All this confirms that although the flexibility of the application system was fair, some problems occurred in practice. The need for flexibility and security emerged due to frequent changes of regulations, which meant that the application system had to be adjusted; but the adjustment or improvement of application systems was not adequate when the level of security was weak. This reflects that the internal Treasury, particularly at operational level, knows when the application is less flexible, because they have to operate it, as well as disseminating information and training the spending units.

Similarly, spending managers at operational level understand the utilization of applications better than finance managers at ministry level. This strengthens the connectedness between regulations, application systems, and services.

Considering ease of maintenance, generally the stakeholders felt that the existing application systems were good. Many stakeholders (69.5% of the treasury officials, 66.3% of the treasury staff, 60% of the finance managers, and 76.5% of the spending unit managers) considered that the systems were ‘good’ to ‘excellent’. Even though there are some variations, this perspective of the stakeholders is relatively similar to that about flexibility, being related to the policy of IT maintenance, particularly software and selected hardware, that has to be reported to and fixed by the centre. But, at operational level, maintenance was felt less satisfactory, because a change in one application influences other application systems. In addition, it was made worse by separate units⁸⁹ in maintaining the applications at the centre. Although the maintenance received good support, it can be inferred that the coordination and links between regulator, system designer and programmer was poor; there are trade-offs between ease of maintenance and control of the application system. Moreover, it suggests connectedness of business processes and application systems, since a change in one sub-system influences another.

All stakeholders agreed that an integrated computerized treasury system was really needed; they were waiting for implementation because of its potential usefulness. But until mid-2009, the integrated treasury system had not been put in place, although attempts to develop an integrated system have been made since the reform was launched. The progress was limited by unfinished business processes⁹⁰. In addition, poor agreement between the reform initiators and treasury officials concerning the

⁸⁹ The application was developed by programmers who were scattered not only in the Treasury System Unit but also in other units.

⁹⁰ Some officials saw that the Treasury too focused on the development of computerized application system but ignoring the development of business process. Therefore, later, business process and application system were developed altogether concurrently.

decision to outsource⁹¹ the development of the system allegedly influenced its progress. Although all parties acknowledged the importance of an integrated computerized treasury system, it can be assumed that the Treasury itself was not sure about the project⁹², indicating that a part of the Treasury wants to empower its internal resources and that there is a lack of trust in outsourcing providers and in donors' assistance.

The discussion above shows that the development of treasury application systems at the second layer was influenced mainly by the progress of other layers. In the first layer, the progress of rules and regulations affected the change of application system. The organizational structure of the Treasury to some degree influenced the progress of the application system, particularly in deciding on centralization of application development and maintenance. However, this is related to other components at the second layer, namely the availability of qualified IT officers in terms of systems analysts, programmers, and operators. In the implementation phase as well, the uneven agreement and commitment concerning integrated system seemingly hampered the progress of the application system.

5.3.6. Services by the Treasury, line ministries, and agents

At the third layer, the attempts made by other stakeholders to deliver treasury services will be discussed. The line ministries (87.5% of the finance managers, 79.4% of the spending unit managers, and 87.1% of the disbursing finance officers) were 'quite satisfied' or 'satisfied' with services delivered by the treasury service offices. Nevertheless, they commented that regional or operational treasury offices across the country did not have similar knowledge and expertise, which affected the level of services. In addition, the stakeholders (93.8% of the finance managers, 91.1% of the

⁹¹ One of the reform initiators believed that the Treasury just needed to link between sub-treasury functions or between existing application systems instead of a big IFMIS project financed by external loan.

⁹² Considering the development and implementation of the system in other countries; some of them were acknowledged as unsuccessful projects.

spending unit managers, and 93.5% of the providers of goods and services) acknowledged that the attitudes and behaviours of treasury officials and staff at operational level after the reform were 'fair' or 'more than fair' although treasury staff (71%) had the lowest perception; they know them more closely as work-mates. All this illustrates that the Treasury, particularly at operational level, has succeeded in being a partner of spending units. It can be implied that the training programs present positive results in terms of positive attitudes, behaviours and services. However, many parties realized that the existing human resources assessment was unable to capture the issue of integrity when selecting officials and staff, although it is crucial in treasury management.

Concerning the roles of line ministries, the treasury officials and staff shared a similar opinion; only 56.5% of the treasury officials and 56% of the staff felt 'quite satisfied' or 'satisfied'. This indicates that line ministries have not fully actualized their new roles since the reform was launched, as attested by this treasury official:

*...historically spending unit is usually guided by the Ministry of Finance and it becomes a custom...so it is likely that spending unit does not have any initiatives... it is not only a matter of regulation but also a matter of approach...
(The Head of treasury service office – TRS22)*

This implies that low performance of line ministries contributed to the general performance of the PEM reform, although many parties argued that staff of line ministries had not been trained properly. However, when the situation of line ministries is explored further, the Treasury could see that line ministries had sufficient will to change and learn. Even 56.5% of the treasury officials and 60.7% of the treasury staff considered that the willingness of the spending unit in their region to change and learn was 'good' or 'excellent', positing that the willingness of line ministries can contribute to their new roles if they are empowered and trained properly. In addition, when the knowledge and skills of spending units concerning treasury management are explored,

they are relatively fair, although their results are lower than their awareness. Only 39.1% of the treasury officials and 32.6% of the treasury staff agreed that their knowledge and skills were 'good' or 'excellent'. Although this is getting lower, at least it reflects the positive correlation between the knowledge and skills and the training programs. As noted earlier, line ministries cannot be blamed for their low performances, considering the lack of training programs provided by the Treasury; only 75% of the finance managers, 67.6% of the spending unit managers, and 90.9 % of the disbursing finance officers stated that they had already received any socialization, dissemination and training programs on treasury management. Although the percentages are high, the remainder is still significant, because of the roles of finance managers in monitoring spending unit managers and mobilizing all finance officers across the country; in addition, the number of disbursing finance officers is more than twenty thousand, across the country. This supports the previous findings that, after five years of the reform, treasury training programs have yet to cover all officers and treasury functions⁹³. Many treasury officials acknowledged that the Treasury has not supplied the detailed tasks⁹⁴ within the spending unit yet. This implies that the line ministries found it difficult to deliver when the detail of tasks and the detail of standard operating procedures were not available. As a consequence for the level of services, only 44.5% of the treasury officials, 49.5% of the treasury staff, 80% of the disbursing finance officers, and 87.1% of the providers of goods and services considered that the attitudes and behaviours towards result-based management of head of spending units is 'good' or 'excellent'. The perspectives vary but there are significant differences between internal and external

⁹³ Only the accounting and reporting trainings were delivered adequately but the intensity of trainings was focused on the preparation of financial accountability reports rather than comprehensive treasury management. Accounting and reporting was more ready in terms of strategy, regulations, applications and human resources.

⁹⁴ Clear tasks and procedures can be used by treasury official and staff to train spending unit on one side and can be used by spending unit officers to deliver their tasks on the other side.

departments within the Treasury⁹⁵. All this confirms that there are positive attitudes and behaviours within line ministries compared with the previous practices before reform, even though they have not yet delivered all expected roles appropriately. In addition, it confirms the less-well performing ministries were affected by the lack of Treasury assistance, supporting the nexus of rules and regulations to attitudes and behaviours.

Furthermore, the stakeholders (69.6% of the treasury officials and 76.5% of the staff) were ‘quite satisfied’ or ‘satisfied’ with the roles of treasury agents in supporting treasury management, particularly in the regions. However, some officials and staff were not yet satisfied⁹⁶. They considered that the services of treasury agents were getting poorer, although they thought that this was normal when the comfort zone had been changed. In addition, the roles of treasury agents in the cash payment and cash receipt systems presented different results⁹⁷. At the central level, treasury officials felt that the performance of the Central Bank in terms of services had slightly decreased as well⁹⁸. Therefore, although the treasury system has been supported by treasury agents, it implies that the Treasury faced difficulties in setting up the relationship between the Treasury and the banks, particularly the Central Bank, as principal – agent relationship; mostly the treasury officials saw the relation as one between monetary and fiscal institutions. It demonstrates that the rearrangement between the Treasury and its agents in the reform had, to some degree, changed the level of control and affected the level of

⁹⁵ On the one side, the Treasury knows the expected roles of line ministries and it becomes the comparison standard, but on the other side the providers compare the attitudes and behaviors of spending unit's official and staff with the previous attitudes and behaviors before reform.

⁹⁶ In some cases the treasury agents did not provide adequate verification and accounting for cash payment and receipt transaction, did not serve spending unit until the end of promised work hour, and transaction data from treasury agent did not link with the treasury system.

⁹⁷ In cash payment system, it was relatively more controllable because the reform did not change significantly payment system and their roles. But in cash receipt system, to some extent the Treasury was unable to control the agents properly. New cash management system reduced or annihilated idle money, not only at spending/ receiving units but also at operational treasury agents.

⁹⁸ It was felt since the Treasury had an agreement concerning the interest rate (65% of the BI rate) to the treasury cash balance.

services⁹⁹ as well. It suggests that, in improving cash management, the infrastructure within both the Treasury and for treasury agents should match.

From the discussion above, it is clear that the attempts by the Treasury to enhance services have been well appreciated. Overall, the Treasury saw that the awareness, knowledge, skills, and practices of treasury management were more than fair, even the Treasury acknowledging that the attention paid by line ministries to learning treasury management was good. Although the achievement of knowledge, skills, and practices was lower than the level of awareness, at least the Treasury could acknowledge that a new culture in treasury management had emerged. The Treasury realized that the institution had not done enough to enhance skills of staff within line ministries. Moreover, although the Treasury controls the operational banks, the relation between the Treasury and the BI did not reflect a principal-agent relationship yet. All this confirms the interconnectedness between the layer of treasury services and other layers.

5.3.7. Coordination and Cooperation Between and Within Institutions

Considering that PEM reform affects many institutions and functions, coordination and cooperation is an essential component of the reform process. It presupposes that the Treasury as the administrative structure of machine bureaucracy tends to have poor coordination and cooperation. Based on this, the coordination and cooperation, not only between internal units of the Treasury, but also between and among institutions will be explored further.

⁹⁹ The Treasury argued that the banking infrastructure, including in the BI has not supported the attempts of the Treasury to apply TSA across the country but from the perspective of treasury agent, the agent tried to support government cash management and offered banking services to the government in line with the existing banking infrastructure and technology, however the agent claimed that the problem was from the infrastructure of the Treasury itself, the hesitancy of treasury officials in using new technology, human resources within the Treasury, and un-supported regulations.

Generally the Treasury considered that internal coordination and cooperation within internal units were quite good. Some respondents stated that they were fair; even 54.3% of the treasury officials and 60.9% of the staff considered that they were 'good' to 'excellent', an opinion supported by line ministries (67.7% of the spending unit managers and 31.3% of the finance managers). However, 13% of the treasury officials considered that the internal coordination was 'poor' or 'bad'. A higher level treasury official stated that it was caused by different targets among treasury functions, as confirmed by another official:

...it (coordination) was lost because it (the strategy) was given to each unit (within the Treasury)... each unit took their own ways, it should be a hub or a unit which control and become a central or nerve system from the implementation of each concept... (The Head of regional treasury office – TRS06)

This indicates that the segregation of organizational structure by functions had influenced the level of coordination and cooperation. In addition, it was likely to worsen when no specific unit or official was responsible for monitoring, controlling or integrating the actions of all units. As for vertical coordination within the Treasury between central, regional and operational offices, treasury officials and staff agreed that it was quite good. Even 69.6% of the treasury officials and 66.9% of the treasury staff acknowledged that it was 'good' or 'excellent', meaning that it is slightly better than internal coordination and cooperation between units at the central office. Moreover, the degree of vertical coordination within the Treasury is in line with and relatively equal to the feedback velocity¹⁰⁰ of coordination between operational office and central office. 71.1% of the treasury officials and 64% of the treasury staff considered that it was 'good' or 'excellent'. However, some officials at the operational level did not agree, seeing it as 'poor'. To elaborate, they were likely to coordinate among themselves using means such as internet communication or telephone:

¹⁰⁰ Feedback velocity is measured to know the response of the centre office in solving operational problem.

...I never ask to the centre...to whom should I ask? I do not know...I communicated via g-talk with treasury officials in other regions...it is really helpful and I believe (the competency of) my colleagues at the operational level... (The Head of treasury service office – TRS33)

It can be inferred that although existing vertical coordination is good, the unit responsible for responding to problems at the operational level was not determined clearly. This explains why different operational offices have different level of services across the country.

Many parties saw that coordination and cooperation between units under the Ministry of Finance were poor¹⁰¹ as reflected in the issue of regulations and the implementation of new approaches; although they also acknowledged that there was an improvement in comparison with the coordination at the early stages of reform. Moreover, although some people doubted the level of coordination between the Ministry of Finance and other institutions, as noted by the interviewee:

...in several matters of implementations, the Ministry of Finance is the backbone, but in others, they will succeed if there are any coordination and cooperation with other institutions...and usually it is the main weakness, when a word of coordination is easy to say but it is very, very difficult to be done in practice... (The Member of Parliament – MP01)

Generally all of the stakeholders agreed that coordination between the Treasury and line ministry, at either central or operation level, was good (68.8% of the finance managers, 82.3% of the spending unit managers, and 87.9% of the disbursing finance officers). This is better than the perspectives of the stakeholders of horizontal and vertical coordination within the Treasury and the Ministry of Finance, supporting the previous findings that the Treasury succeeded as the partner of line ministries in PEM.

In general, it can be concluded that there was a lack of coordination within the Treasury horizontally and vertically, and coordination between the Treasury and other

¹⁰¹ To illustrate, some cases concerning poor coordination happened particularly between the Treasury and the budget unit in preparing budget execution document and the implementation of performance-based budgeting or between the Treasury and the debt unit in managing cash miss-match and issuing treasury bonds/ bills.

units was less than optimal, due to different objectives, different culture, different leadership, and conflict of functions. This suggests that the Treasury has to improve coordination, not only within the Ministry of Finance or Treasury but also between the Ministry and line ministries, which considerably influences the acceleration of reform and the cohesion and synergy of expenditure management. To enhance coordination, the stakeholders propose several means, such as involvement from the early stages, periodic coordination meetings, frequent socialization and dissemination of regulations, training in particular aspects of treasury management, establishment of teams, and even promoting informal interaction between institutions.

5.3.8. Leadership

Initially leadership was not the concern of this study, as the study was not meant to evaluate individual performance, or to reform initiators or policy makers; however the responses during the fieldwork revealed that leadership is one of the factors critical to the success of the reform. In addition, one of the reform initiators worried about the continuity of leadership, underlining the important role of a leader in reform:

...in the implementation, maybe many officials said that lack of resources such as human resources was the main problem, but in my opinion, something which is lacking, not only in the Ministry of Finance but also probably in other ministries, is the change leader... (The Inspector General of MoF, the reform initiator – MOF01)

Consequently, this section will explore the leadership at several levels in respect of political leaders, reform initiators, and operational managers. Nevertheless, the leadership of reform initiators will be the main concern, since it defines how they managed reform initiatives at the operational level, how they enlisted support of political leaders, and how they empowered operational managers.

Every reform program needs an initiator; it can be some person or a group of people with the positive will to break through the old system. Although the reform

initiators succeeded¹⁰² in getting the Laws enacted, it does not mean that their roles were over; morally they still had to implement or monitor at a practical level, because they are the ones who know what kinds of changes will be applied. So they continued to prepare other detailed rules and regulations, restructure organizations, and enhance the capacity of human resources; but the issue of governmental regulations did not run smoothly and it affected lower level regulations as well. Moreover, the reform initiators acknowledged that reform takes time¹⁰³, so that the followers had to be prepared to continue the changes within the institution. However, another treasury official emphasized the importance to the reform of the managerial skill¹⁰⁴ of the initiator, as well as the conceptual skill.

As a political appointee, the finance minister is expected to promote sound finance management in other institutions. It is expected that treasury matters are not only the concern of the members of the finance ministry but also of other stakeholders outside the ministry. As a result, many parties inside and outside of Treasury acknowledged the positive roles of the finance minister, although some considered that her roles were not optimal, seeing that the finance minister did not endorse firm sanctions to undisciplined line ministries concerning expenditure management. Even one of the reform initiators¹⁰⁵ stated that the finance minister did not adequately enforce good public financial management to all stakeholders, particularly outside the Treasury. However in accounting and reporting, the finance minister and reform initiators succeeded in making the financial accountability reports become national issues and

¹⁰² As an implication that the law enactment stage was claimed a success by many parties, the reform initiators were appointed as the leaders of the new organization, the Treasury. Positively they have more power and authority whether to formalize or to internalize the initiatives internally and externally. But, implicitly they have huge burden to apply both tasks.

¹⁰³ In Indonesia's case, after five year reform, the reform faced problems in the continuity of leadership; to illustrate the initiators moved, promoted to other unit, or even retired. In addition, the issue concerning a starter versus a runner emerged in reform which means whether after a certain period of reform, the initiator trusts the followers to continue reform implementation.

¹⁰⁴ It emerges because the new institution was merged from several units and the institution has various functions that have to be accomplished concurrently within limited resources as another consequence of the reform.

¹⁰⁵ He felt that the five years achievements were still below the expectation and these should be accelerated by the active roles of the Minister.

making the president, line ministers and parliament more aware as well. This suggests that although the reform was initiated by a non-political official, it needed strong support from political officials, particularly in promoting and accelerating reform to other institutions.

At the implementation phase, the reform needs qualified operational managers; they are the messenger of reform to staff, the partners of spending unit managers at operational level, and future leaders in the Treasury. However, to some degree the lack of awareness of officials, resistance to change, or conflicting ideas between officials surfaced. In addition, some of the treasury staff complained that their roles in disseminating reform information were poor. Even some officials acknowledged that the capacity of middle-level treasury officials was inadequate to interpret and apply the reform initiatives at a practical level. Still it is true that some initiatives¹⁰⁶ at the operational level were launched by the head of treasury service offices. All this means that the progress of PEM process was aided by the roles of operational managers within the Treasury, supporting the previous assertion that conveying initiatives from reformers to operational managers is essential.

The discussion suggests that leadership, not only of reform initiators but also of political and operational leaders, is another substantial factor of PEM reform. The leadership of the reform initiator is needed not only in formalizing reform initiatives but also in managing transformational changes within the institution. The support of the political leader is really crucial to make the reform become a national issue and to increase the awareness and ownership of the reform in related parties outside the institution. The role of the operational leader is important in articulating and actualizing

¹⁰⁶ To illustrate, there were some initiatives at operational level such as short message service to inform the rest of budget allocation, barcode identification to ensure spending unit officers, modest application to identify spending unit officers, and even the opening of sub-treasury offices in several remote areas.

reform initiatives into practical matters. The operational leader is the intermediary between the reform initiator and lower level staff at the institution. Essentially, they will be the driving force for continuing reform in the institution.

5.3.9. Interaction with other reform initiatives

Although it is not part of the process of PEM reform, it is argued that the interaction between PEM reform and other reform initiatives¹⁰⁷ affects the progress and outcomes of PEM reform. Thus it raises the question of whether there are any positive synergies in implementation.

PEM reform and civil service reform

Many parties acknowledged the progress of civil service reform in the Ministry of Finance that was launched officially in 2006. The PEM reform initiators themselves realized that civil service reform is an integral part of the general strategy of reform. It was inevitable after the reorganization had been executed; it contributed to the organization and the human resources in order to make expenditure management become more effective, efficient and professional. As a result, the reform in the Ministry of Finance was appreciated positively, in terms of conducting reorganization, setting new business processes and operating procedures, analysing new workloads, prioritizing selected excellent service units¹⁰⁸ and creating new remuneration system. It was accompanied by attempts at enhancing the capacity of human resources and enforcing discipline. The establishment by the Treasury of several modern treasury service offices across the country reflected one form of combination of PEM reform and civil service reform. The implication is that PEM reform will not succeed if it is not followed by civil service reform.

¹⁰⁷ As noted in Chapter One, since 1998 the Government of Indonesia has been reforming not only public financial management but also other sectors such as law and legal reform, civil service reform, and decentralization reform. All reform initiatives are intended to impose good governance principles but other reforms are delivered by different institutions.

¹⁰⁸ Selected excellent service units were established in several units under the Ministry whether in the tax unit, the customs and excise unit, and the Treasury.

However, as an effect of the new modern offices, a smaller number of selected staff was needed, while an outcome of shifting pre-payment verification to spending units, was that inevitably it created an excess in staff numbers¹⁰⁹. This should not be a problem, as long as civil service reform provides a way out of this matter.¹¹⁰ In practice, the Ministry of Finance did not have the legal discretion to lay off the excess number of staff, and to some degree this impeded the progress of PEM reform, supporting the previous finding that the issue of legality is really preeminent when enforcing reform initiatives. The Treasury in particular and the Ministry of Finance in general did not have any specific solution except natural retirement¹¹¹ to solve the problem. All this illustrates that PEM reform needs to take into account the support of civil service reform, as indicated by one official:

...It is true that the strategy concerning human resources is something which is forgotten by the reform initiators. Because the spirit is that if we implement the new system, our services will be better and faster but it did not consider the implication to human resources... (The Budget Unit official – MOF03)

Furthermore, the reorganization in the Ministry of Finance had the power, not only to apply the principles of “structure follows function”, but also to apply the “human resources follow function”¹¹². However, it was difficult to apply this approach particularly, when the function was shifted to other units or institutions outside the Ministry. To illustrate, when the shift of pre-payment verification from the Treasury to line ministries was applied, the sub-units under the Treasury, with their human resources, did not move to the line ministries. As a consequence, on the one side the line ministries had new additional tasks, but without support by qualified human resources whereas on the other side the Treasury had fewer tasks but the number of workers

¹⁰⁹ Even the number of staff needed will be less if the integrated computerized treasury system is applied fully.

¹¹⁰ But until the mid of 2009, all laws that were needed to support civil service reform have not been passed, although they were already tabled in the parliament. Although the civil service reform took similar steps to the PEM reform in enacting laws, the results were uneven.

¹¹¹ By natural retirement, it is expected that in the next five year, the number and composition of staff will match with the need to operate a new integration computerized treasury system (DG Treasury, 2008i).

¹¹² It is introduced by merging several units or sub-units that have similar function into appropriate institution; not only the function but also human resources at the units or sub-units are merged into the institution.

remained unchanged. As noted earlier, it created excess numbers of staff at the Treasury compared with their workloads. But the proposal to deploy the excess number of staff from the Treasury to line ministries was not so attractive, given that the new remuneration system¹¹³ was not applied at other ministries. Moreover, the jealousy of other institutions emerged, undeniably due to the partially implemented but unclear plan of the new remuneration system, experienced by finance officers at spending units¹¹⁴. It suggests that civil service reform, particularly the introduction of the new remuneration policy, without firstly matching the human resources needed to the workloads, created a problem in the PEM reform in terms of restructuring of the Treasury.

This suggests that comprehensive care should be taken when reform is intended to reduce the tasks and responsibility of a unit, in particular the implication of the human resources needed. To some extent there were poor synergies between PEM reform and civil service reform.

PEM reform and Legal and Law Enforcement reform

One aim of PEM reform is to enlarge the roles of the line ministry and spending units in managing programs and budget allocation, supported by the accountability of officials whether at the level of minister or his/her proxy¹¹⁵. However, it is argued that the segregation of accountability between political and operational officials or officers at a spending unit is not clear yet. Importantly it is made worse by legal and law enforcement reform in terms of massive anti-corruption efforts. In practice, many officials and officers suspected this and were afraid of executing budget allocations. For

¹¹³ The Ministry of Finance implements the new remuneration system as the additional benefit to the basic salary. Actually in the Ministry and other related institution such as the BPKP, the system has been applied, even before the PEM reform. The remuneration is given to emphasize the role of these institutions in managing public finance that has considerably more risks and responsibilities. But the new remuneration system not only increases the amount of money but also primarily emphasizes more the efficiency of business process and the assurance of service. Initially the system was applied in limited institutions such as the Ministry of Finance, the BPK, the Supreme Court, and the Anti-Corruption Commission.

¹¹⁴ They considered that their tasks basically are to support the roles of the Treasury. Although the Law covers the financial officers not only at the Treasury but also at line ministries, they were not supported by equal reward system.

¹¹⁵ At operational level in delivering activity and executing budget, head of spending unit as minister proxy is responsible for conducting commitment process, liquidation process, and pre-payment verification process.

example, many officials at line ministries were sued for issuing policies and executing programs and budget allocations that allegedly breached particular rules and regulations; even some ex-ministers as political appointees were sued because of alleged involvement in the procurement process. Some of them were sent to jail. This implies unclear roles and accountability between minister, operational manager, and procurement officer/team. As a further implication, many heads of spending units were reluctant to be the formal proxy of their minister and many commitment officers were reluctant to make contracts; some spending unit managers appointed a subordinate to be the proxy of minister responsible for executing activities. But, no check and balance mechanism, the objective of the PEM reform, was accomplished. Consequently it influenced not only the level of budget absorption but also the accomplishment of programs and activities. All this suggests that the interaction between PEM reform and law enforcement reform, in terms of anti-corruption efforts, influenced the acceleration of budget execution. This suggests that the interaction between PEM reform and law enforcement reform can be negative when the concept of accountability is not yet clear.

PEM reform and Decentralization reform

Decentralization reform,¹¹⁶ intended to accelerate national development by bringing government closer to the people was launched massively, beginning in 2001¹¹⁷. The reform is mainly focused on the empowerment of municipal and district offices in delivering governmental functions and it affects spending units previously under ministries at the central government that have become spending units under local governments. The ministries at the central government still have responsibility to dispense policy and to coordinate among regions. But the activities of line ministries at

¹¹⁶ Many functions of the central government were shifted to lower level governments. Only several functions are kept by the central government such as fiscal and monetary affair, foreign affair, religious affair, and defense and security affair.

¹¹⁷ Decentralization reform was supported by The Law number 22/1999 concerning local government and the Law number 25/1999 concerning the fiscal balance between the state and local governments.

local level are delivered by using either task-assistance or de-concentration¹¹⁸. This demonstrates government efforts to enhance the efficiency of public services. However, as seen from the fieldwork, many parties saw that the activities of line ministries that were delivered through task-assistance and de-concentration produced poor results. For instance, budget realization of these activities was low, some activities had not even been executed by mid-2009, although in that year the government prioritized these activities as a fiscal stimulus. Similar to other types of budget execution, each line ministry has to appoint a proxy of the minister, commitment officer, and disbursing finance officer at the spending unit under local government; but in practice, the appointment was not smooth because officials and officers came under a different entity. So it can be assumed that line ministries lost control to de-concentration and task-assistance units across the country.

Although all reform initiatives are intended to enhance good governance in terms of accountability, efficiency, improving services, law enforcement, checks and balances and professionalism, one reform initiative can hamper other reform initiatives if the action of one reform does not consider the progress of the other. So it requires synergy, but in practice the implementation of other reforms impeded the progress of PEM reform due to lack of readiness of other reforms, unclear responsibility and accountability among officials and officers, and poor control on spending units at local government level.

Overall, the study shows that a linear process does matter in PEM reform even though the path-breaking way, as suggested by Painter and Peters (2010), has been adopted in new laws that accommodate the contemporary approaches. The issuance of laws only was inadequate in replacing the old system. Rules and regulations had to be

¹¹⁸ Activity of task-assistance is delivered by spending unit under provincial government and activity of de-concentration is delivered by spending unit under municipal or district government.

issued later to show the detailed business processes that were used in developing the computerized application system. It can be concluded that the progress of the reform was affected by the characteristic of Indonesia as a *rechtsstaat* country that depended on the hierarchy of regulations, as identified by Pollitt and Bouckaert (2004). Moreover, although Stevens (2004) suggested that clear and coherent concepts are needed when enacting a new law, this study found that lack of coherent concepts occurred due to a mix of best practices from different countries and compromise between the different interests of institutions when discussing the bill. Consequently, a grand design covering and connecting all new approaches was unavailable and affected the progress of reform. Similar to the opinion of Peters (2001) and Rose (2001), this study suggests the importance of setting goals for reform because it may make sense to consider how best to move from the current system towards a more advanced system. However, although Allen (2008) and Bietenhader and Bergmann (2010) considered that a detailed action plan was unnecessary, this study shows that details and milestones are necessary. To some extent, those involved in the reform took time just to define the details of proposed initiatives. All this suggests that action plans and grand designs are important. Poor action plans can lead to a 'default' setting, as identified by Stevens (2004), after which the progress of reform becomes stuck or locked-in the *status quo*. However, given that reform takes time, this study also supports that evaluation, as suggested by Allen (2009, p.27), is a must in which countries should prepare to make adjustments to the action plan along the way, whether by using *ex-post* evaluation and reviews.

Concerning the capacity of actors, the success of the reform was supported by the active role of the finance minister. This is consistent with other studies that indicated the finance minister has an important role in coordinating and driving the reform process (Christensen and Laegreid, 2007; Wanna *et al.*, 2003). Without interventions

and active leadership, reform is unlikely to take place, although this study suggests that leadership is needed in all sectors, including line ministry and treasury officials within the finance ministry. Overall, although Allen (2009, p.18) considered all measured variables to be functional components in reform, this study indicates a strong connection between the components of concepts, rules and regulations, business process, and IT systems. Statistically this relationship will be explored further in Chapter Nine. In conclusion, a linear approach does matter. In addition, as another consequence, the gradual implementation of several reform initiatives needs to consider PEM reform as an iterative and concurrent process.

5.4. Summary

This chapter has viewed the part of the internalization concerned with setting implementation strategy, showing that each treasury function took a different path. Moreover, this chapter has described the operation of components supporting the process of PEM reform and the progress of each of these that has been achieved so far. The components at three layers, dealing with rules and regulations, organizational structure, human resources development, computerized applications, services by the Treasury, line ministries/spending units, and by banks as appointed treasury agents presented more than fair progress. In addition, the leadership and coordination supporting all components were felt to be 'quite good' as well. The chapter confirms the connectedness between layers and components. It is clear that the process matters, as do the actions to accomplish the reform objectives. But the relationship between components or layers is likely to be more of an iterative linear process than a one way linear process. Furthermore, the chapter has also shown interaction and cooperation at the operational level between PEM reform and other reform initiatives, suggesting that

one reform cannot move forward effectively without support from others. This appears to be because many reform initiatives are undertaken by different institutions.

Although in general the process of PEM reform is quite satisfactory, some problems occurred in each component, such as lack of milestones along the way, lack of connectedness between units, lack of involvement of stakeholders in the process, poor communication from officials, particularly at middle level, and poor monitoring of progress and taking corrective actions. It raises the question whether these processes can yield the expected outcomes. In the following chapters, the outcomes of PEM reform will be presented.

CHAPTER 6

IMPACTS AND OUTCOMES: BUDGET EXECUTION

6.1. Introduction

In the previous chapter, the process of PEM reform has been discussed in regard to the progress of each component, but the outcomes in the treasury functions have not been presented. In this chapter the outcomes for budget execution achieved since the reform will be elaborated. As noted in Chapter Three, the principal spirit of the PEM reform in budget execution is to apply strict professionalism to the roles of line ministers as COOs, as they execute programs and budget appropriations authorized by parliament, also using the principle of transparency to examine the clear authority of the minister as budget user and assets user. The objective is to enhance operational efficiency in the accomplishment of performance targets while maximising allocation efficiency and aggregate fiscal discipline. So the expected outcomes for budget execution are not merely to absorb budget allocation but also to promote and sustain economic development, to distribute the development across regions evenly, and to eradicate poverty and minimize unemployment, as mandated by the Public Finance Law in terms of stabilization, allocation, and distribution functions (MoF, 2003a). Moreover, the other expected outcome is to deliver performance management not only via a performance-based plan or budget, but also through performance-based execution, measurement, and information. At the operational level, this means that each line

ministry or spending unit is responsible for delivering programs and activities as well as attaining targeted outcomes and outputs by managing all its allocated resources. So the chapter will explore whether the expected outcomes as mandated by the Laws have been accomplished, whether they are affected by the process, and whether there are specific factors of budget execution affecting them.

More than 82% of the stakeholders (90.1% of the treasury staff, 87.6% of the finance managers, and 82.4% of the spending unit managers) were ‘quite satisfied’ or ‘satisfied’ with the outcomes for budget execution, indicating that the outcomes for budget execution were appreciated positively by all stakeholders, although more by those in the Treasury. However, in spite of these positive perspectives, others were in doubt about the roles of government in delivering sound budget execution:

...what we expect is how politically the state annual budget can stimulate our economy, but in reality it has not been achieved yet. It is not caused by the amount of the budget but the time of realization which is always late... (The Head of the provider association – PRO01)

Hence, considering the importance of timely execution, this chapter will discuss the outcomes for budget execution at three critical periods: at the beginning of the budget year, during the budget year, and at its end.

6.2. Practices of Budget Execution at the Beginning of the Budget Year

At the beginning of the budget year, there are some critical decisions, such as the approval of the budget document, the appointment of responsible finance officers, and the availability of cash advance that have to be prepared early in order to support budget execution throughout the budget year. The practices at the budget preparation phase contribute to the execution outcomes, so, budget preparation will be discussed briefly first, in terms of new budget approaches and the completeness and timeliness of budget discussions.

6.2.1. Links between Budget Preparation and Execution

Although a unified budgeting system has been applied, the responsibility of related units is not clearly separated; in practice the planning agency controls not only types of activity¹¹⁹ but also types of tentative budget allocation¹²⁰. The system, like the previous system, implements firm control affecting the budget preparation phase¹²¹ as well. Moreover, MTEF has not been applied at ministry level and performance-based budgeting is being developed¹²². In practice, instead of a multi-year perspective and outputs or outcomes control, an annual perspective and input controls were imposed at the spending unit level. Furthermore, in some ministries, due to tight time schedules of budget preparation, all budget requests were prepared by finance managers at the ministry level¹²³ rather than using a bottom-up approach by accumulating and consolidating all budget requests from spending units. As a further consequence, the budget execution phase was affected as well because it needed more adjustments¹²⁴ operationally; although ministerial budget requests were presented, discussed and approved, the allocations were not easy to execute at that time. There were some factors in the practices at the budget preparation phase that presumably affected its outcomes, such as the on-going implementation of MTEF and performance-based budgeting, the control on budget allocations, and the quality of budget discussion. Moreover, certain

¹¹⁹ In the new system, activities are divided into three types which are prioritized activity, supporting activity, and basic activity. Consequently budget allocations reflect these types of activities. Basic activity represented recurrent activities in the previous system. As further control, there are inappropriate to shift budget allocations from basic activity to supporting activity or from prioritized activity to additional activity (MoF, 2008f).

¹²⁰ The planning unit does not only control programs and activities but also tentative budget allocation into compulsory allocation and non-compulsory allocation. A compulsory allocation is to support a recurrent activity and a non-compulsory allocation is to support development activity.

¹²¹ To illustrate even during budget discussion, spending unit was inappropriate to shift from compulsory allocation to non-compulsory allocation although it was needed.

¹²² The government strategy is to gradually shift from input-based budgeting into output-based budgeting. At the first stage of implementation, the Finance Minister simply ordered line ministries and spending units to give the quantity of outputs as performance targets rather than their quality, timeliness, and price. Later since 2006 the government has presented modest performance indicators reflecting the link between budget allocation and targeted outputs in budget documents (IMF, 2006; MoF 2008a). Although most budget proposals still use line item accounts in each sub-activity, the government set several standards of output costing based on sub-activity. Since 2007, several outputs of sub-activities, for example training cost per person, cost of report/book/paper, cost of audit activity, had been determined (MoF, 2008d).

¹²³ In practice, some of the spending unit managers complained that what they got was not what they requested.

¹²⁴ It got worse when the spending unit did not have any authority to shift budget allocations especially when it was allocated in different types of activities and types of compulsoriness.

controls that occurred at the planning phase, locking major activities and their tentative budget allocations, provided some limitations not only to budget preparation but also to budget execution, suggesting that an improper method of budget planning and preparation contributes to poor budget execution.

6.2.2. Budget Document

At the beginning of a budget year, approval of the budget document is another important stage; basically the document presents the details of budget allocations for a spending unit within a period, so arguably a timely budget document contributes to budget execution during the budget year. This section will not only discuss the approval stage and its connection to annual budget, authorization, and timeliness but also explores the quality of the budget document itself in supporting all treasury functions, as well as its readiness to be executed after approval.

Budget Appropriation and Allocations

Although the reform has succeeded in clarifying the budget time schedule¹²⁵, the budget appropriations in the system are not yet operative¹²⁶. In addition, in practice some line ministries were unable to finish the budget discussions with counterpart committees in parliament on time¹²⁷. Consequently, the Ministry of Finance faced difficulty in issuing the details of budget appropriations¹²⁸. Furthermore, when the budget document was issued it needed further adjustments, as agreed by this official:

...Recently it was the problem in some ministries such as the health, the agriculture, the transportation. The budget appropriations were approved by the parliament in October, but the detail of budget appropriations is not ready

¹²⁵ The Public Finance Law states that an annual state budget has to be approved at least 2 months before the beginning of budget year, but an annual local government budget has to be approved at least 1 month before the beginning of budget year (MoF, 2003a). The reform tries to connect and synergize the budget preparation stages between central government and local governments.

¹²⁶ In the next two months, the government issues a presidential decree concerning the detail of budget appropriations. The decree is then used as a basis for the budget document of spending units. Two months is adequate to issue budget documents if it is supported by the timeliness of the detail of budget appropriations.

¹²⁷ Although later the annual budget was approved, the details were not available yet.

¹²⁸ Considering the important function of the document, the later policy authorizes finance ministry to use the detail from line ministry rather than the agreement detail to issue the document (MoF, 2008f). Although the finance ministry has two options whether approving one bulk of budget allocation or blocking the detail of some allocations, whatever the option is taken, inevitably it affects the Treasury and line ministries in preparing budget document.

yet until now (the second quarter of budget year) due to many revisions... (The Director of Budget Execution – TRS09)

During the period, the discussion and the approval reflect the level of authority of related institutions, such as parliament's role in approving budget appropriations¹²⁹ and the role of government to approve the details of these¹³⁰. Based on the details of budget appropriations, line ministries prepare budget documents although in practice their roles are limited, because the budget allocation for spending units within ministries are already locked into the detailed appropriations. Furthermore, because of the segregation of functions between the budget unit and the Treasury within the Ministry of Finance, the budget document is controlled by these units as well; in the system, the spending unit has two discussions¹³¹. All this emphasizes the connection between budget appropriations, their details, and budget documents. However, although the schedule is essentially intended to support the timeliness of budget execution, the execution cannot be undertaken properly if the quality of the budget document is marginalized in discussions on budget appropriations.

Timeliness of Issuance of the Budget Document

It is argued that the late issuance of budget documents contributes to the low expenditure of budget allocations. At the early stage of reform, many parties believed that this was the main problem. However, the Treasury took some steps later, such as an earlier approval process and even the issuance of a temporary budget document when spending units were unable to produce a final document at the beginning of the budget year (MoF, 2008f). As a result, all of the stakeholders within the Treasury and

¹²⁹ The parliament authorizes approval of budget appropriations based on unit organization, function, sub-function, program, activity and then economic classifications (MoF, 2003a). Therefore implicitly it is not only a financial matter but also a performance matter in terms of programs and major activities.

¹³⁰ The detail of budget appropriations as budget allotment for line ministries is issued by the government that allocates budget further based on spending units, programs, activities, and economic classifications (MoF, 2004c).

¹³¹ The first is when they discuss budget requests with the budget unit before the budget law is approved and the second is when they discuss the budget document with the Treasury after the budget law is approved (MoF, 2004c). Whether it represents firm and sound control or duplication of functions, some line ministries and spending units complained about this segregation, particularly at the early stage of the reform. They considered that the segregation increased the cost of budget discussion.

line ministries shared the same opinion, that the approval was quite satisfactory (to the satisfaction of 83.2% of treasury staff and 73.4% of spending unit managers). The results were agreed by the finance managers at ministry level, who stated that the procurement process was undertaken in November but then the contract was signed in January.

The higher perspective shown by the Treasury supports the previous finding that the actors within the Treasury saw changes more positively than the external parties. It can be inferred that generally the timeliness of the issuance and approval of the budget document is not a problem anymore, suggesting that budget allocations can be executed well within the budget year.

Ownership of the Budget Document

The Public Treasury Law acknowledges that there are three major functions of the budget document: an authorization for units to spend; a critical hub connecting all treasury functions including performance management; and guidelines for operational execution. It is argued that the ownership of a budget document and the information provided¹³² is critically important. Therefore it is interesting to explore the ownership of the budget document,¹³³ whether the document belongs to the line ministry, the Treasury, or the spending unit. In practice, the line ministry prepares the document, the Treasury approves it, and the spending unit executes it at operational level. Although it is clear that the authority of the budget allocation to the line ministry comes primarily from the parliament in the form of budget appropriations, the role of the Treasury

¹³² In practice, the budget document was prepared by the line ministry, although technically it was prepared by spending unit based on the detail of budget appropriations and the initial budget request from spending unit. Then it was discussed with the Treasury whether at the centre or at the regional treasury office. The budget document was signed by a high level official of line ministry but the approval sheet was signed by a high level treasury official. The budget document then was sent to spending unit and other related institutions (MoF, 2008f).

¹³³ Historically the government tried to combine a warrant and a budget implementation plan into a budget document (MoF, 2002c). However, a warrant is usually issued by a treasury unit in order to monitor money that is needed by spending unit to support budget execution. On the other side, a budget implementation plan is a document that is prepared by spending unit to guide and monitor the execution and the progress of activities. In many PEM systems, the document is usually prepared based on a warrant that is already approved.

remains dominant,¹³⁴ authorizing the detail of budget allocations in the form of budget documents. Nevertheless, the ownership of line ministries is not clear because they sign the document after approval by the Treasury. Moreover, ownership gets blurred when the spending unit manager does not sign any sheet in the document. If the document is treated as a mandate to the spending unit manager, it has to be clear who is the principal and who is the agent, but in the document the relationship is not defined clearly. Interestingly, although the reform is intended to enhance the roles of the Treasury in managing cash, the institution did not sign or approve the cash plan in particular. All this indicates that although conceptually the function of budget document is significant, there was some divergence from the concepts in practice, suggesting that the ownership of the budget document is not clear enough. This presumes that poor ownership of the document hampers not only the information needed but also the control and flexibility in execution and the accountability of the institution.

Budget Document in support of Budget Execution

In practice, the document succeeded in being applied as an authority to spend budget allocations and as a guide to setting the ceilings of accounts used to control payment requests and payment orders. Moreover, the stakeholders acknowledged the usefulness of the budget document in supporting budget execution, as agreed by more than 85% of treasury staff, spending unit managers, and disbursing finance officers. This confirms that the main function of the budget document, to support budget execution in terms of authorization and control, was appreciated positively by stakeholders.

Budget Document in support of Performance Management

The stakeholders, within the Treasury and line ministries (72.3% of the treasury staff, 56.3% of the finance managers, 76.5% of the spending unit managers), saw that

¹³⁴ The budget document was not operative yet without the Treasury approval and every change of budget allocations within budget document had to be approved by the Treasury.

the information presented in the budget document was less useful to support performance measurement compared with its support for other treasury functions. Moreover, the Treasury did not issue lower-level operational regulations concerning performance accountability reports¹³⁵ although the governmental regulations about this matter were issued in 2006. Furthermore, although conceptually the budget document is seen as a performance agreement or contract¹³⁶ in order to support the implementation of the concept of “let the managers manage”, in reality, when the definitions of principal, agent, targeted performances, resources, and time were unclear, the contract was not yet applied. In addition, programs and activities representing targeted performance were being restructured¹³⁷ by using a cascading approach and, instead of output-based costing, input-based¹³⁸ costing was used to allocate the resources. In addition, as noted earlier the document was not signed by the spending unit manager responsible for undertaking activities; even in the document a spending unit manager was not named automatically as the proxy of the line ministry¹³⁹. But, in terms of time frame, at least the annual perspective of the budget document supported the performance contract and operational accountability¹⁴⁰. Therefore in the view of the ownership and information provided in the budget document, it can be concluded that it has not supported performance management at large, owing to the difficulty in presenting the components of performance. But, this suggests that the existing draft budget document can be

¹³⁵ From the fieldwork, some disagreement occurred among the Ministry of Finance, the BPKP, and the Ministry of State Apparatus concerning the integration between financial and performance information.

¹³⁶ A performance contract is a document that shows performance targets are going to be accomplished by operational officer as the proxy of minister in a certain period. It is accompanied with budget allocation to support the performance targets. It is clear that primarily a contract needs a principal and an agent, tasks that are contracted, resources that are delegated, and a period of time. In the new template, the budget document presents the narration of outcome from a program, major output of an activity, and minor output of a sub activity. Moreover, the document also shows the quantity of targeted output (MoF, 2008f).

¹³⁷ The Finance Minister urged line ministries to restructure their programs and activities, which is important to show the relation of programs and activities to their functions, outcomes and outputs, to avoid overlapping of functions, and to show responsibility clearly (MoF, 2004c). There were 250 programs and 1,300 activities in the Annual National Plan (RKP) in 2006 (World Bank, 2007). It will be more difficult when the performance target is distributed into lower levels and when connecting performance indicator to financial indicator.

¹³⁸ Sub-activities are created under each activity to accommodate and measure the real outputs produced. Each sub-activity is supported by some accounts that reflected input costing

¹³⁹ In many cases, spending unit managers appointed their subordinates to be a proxy minister.

¹⁴⁰ Operational accountability is related to operational task of a proxy of minister in delivering the outputs of activities to support the accomplishment of targeted outcomes. Although outcomes have to be measured in medium term perspective, outputs can be measured annually (MoF, 2004c).

upgraded as a performance contract between the minister as chief operating officer and the spending unit manager as proxy. In addition, it can be inferred that performance management is not yet seen as the main function of the budget document.

Budget Document in support of Cash Management

As noted earlier a budget document functionally connects and supports treasury functions including cash management. It is supported by the Law that mandates the Finance Minister to include additional information about the cash disbursement plan and estimated revenue in a budget document¹⁴¹ (MoF, 2004a). Based on the fieldwork data, all of the stakeholders (81.8% of the treasury staff, 68.8% of the finance managers, 85.2% of the spending unit managers, and 90.9% of the disbursing finance officers) felt that the information was less useful for supporting cash management than for supporting budget execution and accounting. Although the data concerning monthly cash plans¹⁴² were available, many parties acknowledged that they were unreliable¹⁴³. Besides cash plans, the document also presented some information related to cash management, such as the responsible treasury service office and the authorized finance officers; it can be inferred that the information focused on the roles of the Treasury in controlling spending units. Therefore although the budget document presented certain information, it has not supported cash management due to inadequate details, timeliness, and reliability.

Budget Document in support of Accounting and Reporting

As with other treasury functions, the budget document is expected to provide certain information for accounting and reporting. Because it is issued at the beginning of the budget year, the information particularly has a function of providing an initial

¹⁴¹ In the previous system, the function of budget document as cash plan was not imposed by the law.

¹⁴² Because the Law itself does not mention the level of detail of cash plan, in practice budget document presented cash plan by monthly basis, by major activities, and by economic classifications (MoF, 2008f).

¹⁴³ Many spending units just set the figures as one-twelfth of total budget in monthly plan without considering the action plan in related months. In addition, rarely spending units sent the updated data to the Treasury (MoF, 2009c).

database¹⁴⁴ for accounting and reporting. In the system, the document provides initial data concerning the figures of major accounts. However, the accounting system developed centrally by the Treasury needs the details of accounts as minor accounts¹⁴⁵ instead of major accounts. In practice, minor accounts were provided from the detail of the budget document as operational guidelines for executing the budget at spending units instead of referring to the budget document itself. Concerning the usefulness of the budget document to support accounting and reporting, more than 85% of the stakeholders (87.1% of the treasury staff, 93.8% of the finance managers, 91.2% of the spending unit managers, 93.7% of the disbursing finance officers) felt that it was 'useful' or 'very useful', so the budget document has, to some extent, provided information to support accounting and reporting as an initial database at the beginning of the budget year, although the detail of accounts was provided from other documents issued by spending units internally, thus reflecting the lack of synchronization of systems at the Treasury.

Details of the Budget Document as Operational Guidelines

The budget document also functions as a guide for spending units in issuing detailed action plans and budget allocations. In practice, the details of the budget document were issued by spending units to support finance officers and operational officers within units, primarily to control expenditure management internally¹⁴⁶. After the budget document is approved, the spending unit prepares the detail¹⁴⁷ (MoF, 2008f). However, since it is not compulsory, in practice, some spending units prepared the document but others did not. In addition, they saw that the regulations were too rigid

¹⁴⁴ The document provides the database for accounting and recording in terms of the code of spending unit, the code of function, sub-function, programs, and activities, and economic classification within each spending unit.

¹⁴⁵ The accounting system needs 6 digits of accounts but budget document just provides 4 digits of accounts as further detail of the 2 digits of economic classification.

¹⁴⁶ To illustrate in cash management, it supported the management of cash advance and petty cash; in performance management, it provided more information concerning minor activity, the responsible operating officer or unit, and the timing of implementation.

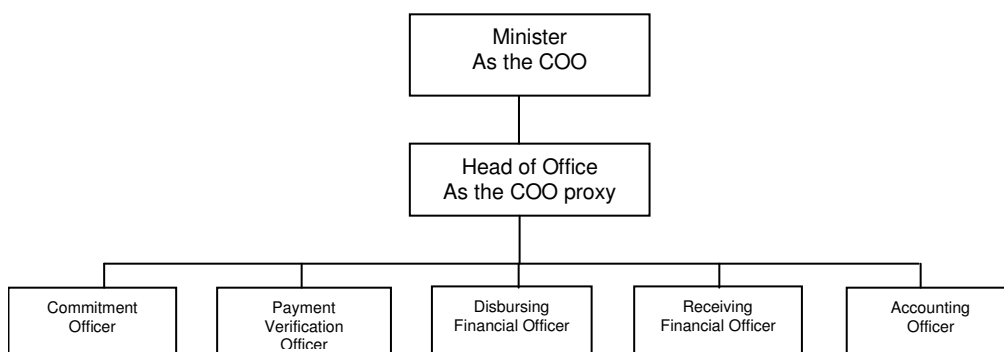
¹⁴⁷ In the previous practice, the detail was one of the documents that had to be prepared at the budget preparation phase.

because the document had to be approved by a high-level official at ministry level. This raised questions concerning the utility of the document, whether it was for the use of spending unit managers or for high level officials. It can be assumed that the governance details of the budget document did not already support the roles, authority, and responsibility of spending units in managing resources internally. In addition, it suggests that many spending units themselves did not realize the importance of the document in supporting internal control.

Overall, although the budget document could be presented on time, the template of the document and its information were inadequate as support for treasury functions and performance management. In addition, the document has not yet accommodated the main interests of line ministries and spending units. All this suggests the importance of the timeliness and quality of the budget document. It also suggests that the concepts, functions, and template of the budget document are affected by the implementation of the budget approach and system, the quality of budget preparation, and control by the Treasury.

6.2.3. Appointment of Executive Officers

Figure 6.1 Organizational structure at spending unit after the reform



Source: Adapted from www.perbendaharaan.go.id

Programs and activities cannot be delivered directly until authorized officers¹⁴⁸ have been appointed to spending units (Figure 6.1) (MoF, 2005a). Although at the early stage of the reform, one factor hampering budget realization was the late appointment of responsible officers within spending units, it is unlikely to be a problem any more¹⁴⁹; 64% of the disbursing finance officers had already been appointed since the beginning of the budget year and almost 97% of the officers were appointed before the end of January. Although in general the finance officers could be appointed at the beginning of a budget year, one of the officials stated that in specific regions the appointment was late¹⁵⁰. Because the Law does not refer to the appointment of other officers,¹⁵¹ such as commitment officers, payment order officers, or accounting officers by the minister, instead they are appointed by spending unit managers. But the appointment of several finance officers seemed to have been difficult, considering the uneven quantity and quality of staff across line ministries and across regions. Moreover, the budget document itself mentions only three types of officers:¹⁵² the minister's proxy, disbursing finance officer, and payment order officer (MoF, 2008f). However, many spending unit managers saw the function of minister's proxy as being responsible only for supporting budget execution, rather than for delivering programs and activities; consequently they did not want to get involved¹⁵³ in the budget execution process. All this shows that the appointment of a proxy for the minister and finance officers has not fulfilled the spirit of the reform to enhance the roles of the operational manager in delivering programs and activities and to create a sound mechanism for checks and balances. The existing system

¹⁴⁸ As presented in Appendix 2, in order to create a strong check and balance mechanism, the Law emphasizes the segregation of roles among finance officers at line ministry such as commitment officer, account payable officer, payment order officer, disbursing finance officer, receiving finance officer and accounting officers (MoF, 2004a).

¹⁴⁹ Later the Treasury regulates that as long as finance officers are not replaced; spending unit just sends an official letter to the Treasury in order to inform the renewal of appointment.

¹⁵⁰ It occurred particularly related to the activities of task-assistance and de-concentration.

¹⁵¹ Although the positions were relatively new, their functions existed in the previous system; the functions were delivered by a disbursing finance officer and an official at spending unit.

¹⁵² In the previous system, there were two responsible officers who were spending unit manager and disbursing finance officer for recurrent activity and project manager and disbursing finance officer for capital activities (MoF, 2002b). It can be inferred that a proxy of minister replaces an operational manager in the previous system and the appointment of payment order officer represents the shifting function of payment order to spending unit.

¹⁵³ They were afraid of the implication of wrong doing in budget execution leading them into jail.

does not succeed in creating and empowering all finance officers and their functions; it is still focused on control by the Treasury rather than on internal and managerial control by line ministries. This suggests that the development of PEM reform should take account of the capacities of stakeholders.

6.2.4. Availability of Cash Advance

Another critical point at the beginning of the budget year is the availability of a cash advance¹⁵⁴ as an imprest fund at spending unit level. Although this is seemingly a support function, it is significant for accelerating budget execution. The Law mandates the finance ministry to support the needs for cash advance at line ministry (MoF, 2004a), the system concerning cash advance being relatively similar to the previous system. The Treasury provides some cash advance, either to disbursing finance officers to support operational activities, or to providers for developmental purposes¹⁵⁵. But, given that cash advance is a transitory transaction, the Treasury still controls the utilization and accountability of the cash advance. In practice, spending units have to apply for cash advance at the beginning of the budget year. All this suggests that the system has been supporting the availability of cash advance at the beginning of the budget year, although in some cases it was available gradually, presuming that spending units are ready to deliver programs and activities from the beginning of the budget year.

In general, after several years of the reform, the outcomes for budget execution in terms of the timeliness of the budget document and the appointment of responsible officers at the beginning of the budget year have been undertaken well. But the function and quality of the budget document has still fallen short of expectations. The system, including the function of the budget document, still emphasizes and reinforces the

¹⁵⁴ Functionally cash advance is a certain amount of money that is allocated to spending units in order to support the operational activity of the unit.

¹⁵⁵ Concerning cash advance to provider, it reflects that the commitment contract from spending units has not been used as a guarantee for a credit request to the bank.

Treasury's role as financial controller, rather than the roles of line ministries and spending units in delivering programs and activities. In the next section we will see whether progress at the beginning of the budget year can contribute positively to budget execution during a budget year.

6.3. Budget Execution Practices throughout the Budget Year

Currently, activities are being delivered and budget allocations executed, nevertheless, some parties remain in doubt about the achievement:

...I do not know whether delay in executing budget is due to the bureaucracy in the Ministry of Finance or no money...in many times, the budget has been approved by the parliament but budget execution was so late... (The Head of Provider Association – PRO01)

In this section, some indicators will be explored, such as the stages of budget execution and the changing trends in budget absorption, focusing on the financial aspect of budget execution rather than on its performance. This presumes that the level of budget absorption reflects the achievement of performance targets.

6.3.1. Procurement, Commitment, Liquidation, and Payment Orders

Procurement

Although the procurement process is a part of public expenditure management, this process will not be explored in detail because in Indonesia's case the procurement policy and guidelines are issued by another institution outside the Ministry of Finance, the national procurement policy unit¹⁵⁶. Actually there are two issues concerning procurement, first the procurement policy and its guidelines and second its institutional arrangements. As to the procurement policy, the feeling is that the guidelines were too rigid¹⁵⁷. Moreover, many parties complained¹⁵⁸ that the policy failed to legally protect

¹⁵⁶ Lembaga Kebijakan Pengadaan Barang dan Jasa Pemerintah (LKPP) was established in 2008. Previously the policy of procurement was issued by the national development planning agency (BAPPENAS).

¹⁵⁷ The rigidity in terms of authority and time schedule allegedly caused poor budget execution although others said that it did not matter as long as spending units set a clear schedule of procurement plan.

¹⁵⁸ As noted earlier, in many cases some officials went to jail due to his/her approval on a direct appointment of provider.

the roles of authorized officials and procurement officers. In addition, to a lesser extent, the claims of unsuccessful bidders hampered the execution of the budget, although it accommodates good governance. In terms of institutional arrangements, there were incidental objections¹⁵⁹ from some parties, including the Treasury, concerning the establishment of the national procurement policy agency, their wide coverage¹⁶⁰ becoming the main concern about the establishment of the institution. It is the role of the agency to accredit procurement officers across the country, but it led to controversy when it issued the policy that every procurement process had to be conducted by an accredited procurement officer, although only a small number of procurement officers within spending units had such certification. The anxiety of the Treasury concerning poor coordination between institutions affecting budget execution was vindicated. However, the institution succeeded in implementing e-procurement gradually within the public sector. All this suggests that there were different perspectives and grasps of stakeholders concerning the procurement policy itself. Nevertheless, the guidelines for procurement lacked clarity in terms of the segregation between the responsibility and roles of minister, the proxy of the minister, and the procurement officers and teams. Consequently, the policy and guidelines have to be understood not only by procurement officers but also by proxies of the minister in managing budget execution. In addition, this suggests that coordination between the finance ministry and the procurement agency is essential, particularly when the procurement policy comes from other institutions outside the finance ministry.

¹⁵⁹ Some officials argued that procurement policy should be under the control of the Ministry of Finance considering the main function of procurement to support budget execution; they stated that procurement policy and standards were an integral part of public finance management. In addition, they were also worried that poor coordination between institutions existed and contributed to poor execution of budget allocation.

¹⁶⁰ The institution claims that procurement policy covers not only central government and local governments as entities but also other public entity such as the central bank.

Commitment and Liquidation

At the commitment stage, the system is somewhat similar to the previous system, the difference being that the role of commitment officer is stated clearly, as mandated by the Law, so the spending unit must appoint a commitment officer as well as other finance officers. This explains why the system emphasizes shifting the function of signing a contract from the spending unit manager or project manager to the commitment officer. However in practice, due to the limited numbers of finance officers at many spending units, the role of commitment officer has been handled by spending unit managers. In addition, despite the segregation of functions, the roles of commitment officers covered other roles of finance officers¹⁶¹ as well. This is not a problem if sound internal control exists, but the system does not provide adequate control in terms of commitment accounting and billing accounting¹⁶²; as a consequence, the available information is only a record of activities that have been undertaken and payments made. Notwithstanding the mandate to appoint several financial officers, in general commitment and liquidation were undertaken well, suggesting that the appointment of commitment officer itself is not sufficient to create a sound mechanism of checks and balances when many functions are handled by this officer alone; the system still has poor internal control. In addition, the policy of appointing several finance officers within spending units needs to consider adequate skills and knowledge of officers.

¹⁶¹ The officers were also responsible not only to make a commitment but also to receive goods and approve services that were delivered at the liquidation stage. In addition, the officers were responsible to send a payment request to payment order officer. It happened because other officers have not been appointed.

¹⁶² Although there are records concerning commitment in terms of contracts or providers, there is no accounting at the commitment stage in terms of budget allocation of activities, activities that have been contracted, activities in progress, and the rest of budget allocation.

Payment Orders

After the reform, this stage became crucial, because there was a shift of pre-payment verification from the Treasury to the spending unit¹⁶³ (MoF, 2004a; 2005a). The payment order stage is regulated by ministerial and treasury regulations, emphasizing that the role of the Treasury is just to check the validity of payment orders¹⁶⁴ from spending units (DG Treasury, 2005b), while the verification of detail is the responsibility of spending units¹⁶⁵. This is the main reason why a payment order officer is appointed at a spending unit (DG Treasury, 2005b). Although the majority of the treasury staff were ‘quite satisfied’ or ‘satisfied’ (74.5%) with the practices of dealing with payment orders within spending units in terms of completeness of documents, 12% of the staff was not yet satisfied¹⁶⁶. So it is argued that the reform has not succeeded in shifting the level of control¹⁶⁷ fully. In practice, there were three levels of expenditure control operating: at the spending unit, at the Treasury¹⁶⁸, and at the operational bank. In previous practice, payment control was applied twice only, at the Treasury and at the bank. In general, it can be concluded that the practices of payment order showed positive results, although the principle of shifting the function has not been followed as expected. This means that the shift of function created another control instead of segregating the controls, supporting the previous finding that the concept of “structure follows function” is seemingly difficult to follow during reform. Moreover, it implies that the Treasury did not have the assurance and trust that the control within

¹⁶³ It is the effort to segregate fully the roles of CFO and COO. Actually the Dutch colonial government implemented this separation of function between administrative control (*administrative beheer*) and financial control (*comptable beheer*) like the implementation of budget execution in many francophone countries; but due to the lack of capacity of line ministries, the administrative functions, particularly payment verification were retained by the Finance Minister (Soeriaatmadja, 1986).

¹⁶⁴ Instead of verifying detail contacts and their supporting documents, the Treasury just verifies a summary of contracts.

¹⁶⁵ Spending units have to ensure the correctness of invoices, the calculations, and the accounts to be debited.

¹⁶⁶ The Treasury found that many payment orders debited into incorrect account classifications.

¹⁶⁷ Although pre-payment order was shifted to spending unit, the Treasury holds significant control; payment orders are still verified by the institution (DG Treasury, 2005b).

¹⁶⁸ The Treasury argued that they were not a government cashier only but they had function as financial controller as well. They needed to check whether payment order is in line with the budget law and other regulations.

spending units was effective. Further discussion concerning PEM control will be presented in Chapter Ten.

Approval of Payment Order

Concerning payment approval, the Treasury has set a new standard operating procedure¹⁶⁹ to cope with payment orders, primarily implemented at the new treasury service offices. After the reform, an overwhelming majority of the disbursing finance officers (97%) felt that the pace of approval had improved. Even during the fieldwork, it was found that, on average, the payment order documents were verified and approved between 20 to 30 minutes approximately. However, compared with the previous practices, the time to verify and approve payment orders should be even faster because some verification functions had been shifted to the spending unit. The next step is a cash payment stage incorporating the functions of budget execution and cash management; the providers (90.3%) acknowledged that the practices supported better payment process in which the time needed to approve a payment request was approximately within a day or between 2 to 3 days. Some 29% of the providers were positive, agreeing that all payment requests were paid in a day. In addition, the disbursing finance officers (93.5%) and the providers (86.7%) agreed that the mechanism of budget execution was better than the previous mechanism before the reform. So all this confirms that the practices of payment were already appreciated, suggesting that the roles of the Treasury as service provider were delivered well; the reform has changed the level of services.

Overall, the practices in budget execution in terms of the execution stages have produced good outcomes. The main changes occurred with shifting pre-payment verification and payment order to spending units, but some problems appeared, particularly in terms of poor internal control.

¹⁶⁹ The Treasury sets one hour approval if payment order is already supported by complete documents, but one day service is still set in conventional treasury service (DG Treasury, 2005b).

6.3.2. Budget Absorption

The obvious indicators of the outcomes of budget execution are the achievement of programs and activities and the absorption of budget allocations¹⁷⁰. So this section will explore the relationship between financial absorption and performance achievement in terms of trends, level of absorption, its distribution and efforts to solve problems. Line ministry personnel (81.3% of the finance managers, 82.3% of the spending unit managers) felt that the results in terms of the level of budget absorption were positive; better than the perspective of the Treasury (50% of the treasury staff). As well, within line ministries, comparing the outcomes of performance and financial targets, the spending unit managers were more satisfied with the outcomes of performance achievement than those of financial achievement; these perspectives are even better than those of the finance managers. In contrast, the finance managers were more satisfied with the outcomes of financial achievement. All this indicates that the budget allocations were done well and contributed to performance achievement, even though the Treasury was less satisfied. This implies that spending unit managers have more control over the achievement of finance and performance than finance managers at ministry level; while the finance managers have more information concerning the activities and budget allocations that cannot be executed across the country. Thus, the presumption is that, in the system, the spending unit managers, although to a lesser extent, have more authority and responsibility to manage resources in order to accomplish targeted programs and activities.

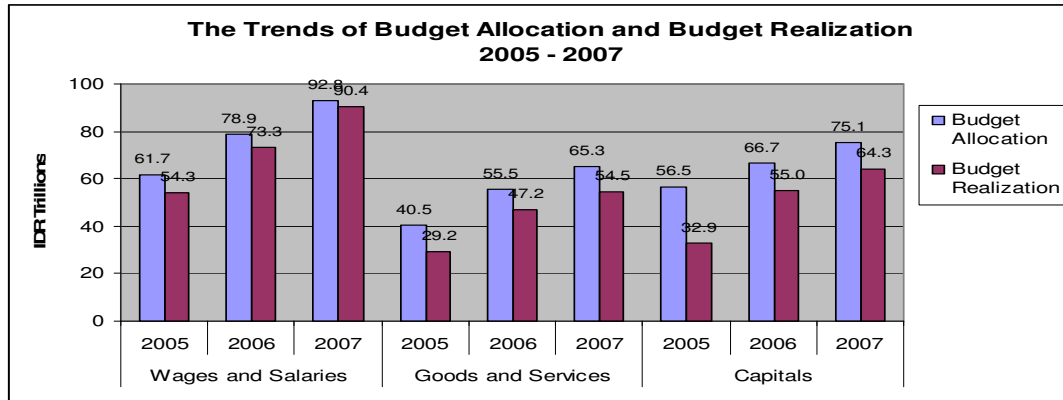
Theoretically, the level of budget absorption reflects the achievement of programs and activities¹⁷¹. Figure 6.2 shows the figures for government expenditure in

¹⁷⁰ Concerning the level of absorption in Indonesia's case, the problem is not the over absorption but poor absorption of budget allocations.

¹⁷¹ It is mainly used by many traditional institutions that still cannot present sound performance information system as used in the performance evaluation in Indonesia whether by parliament or by executive.

terms of budget allocation increasing gradually year by year in all types of economic classifications, such as salaries and wages, goods and services, and capital expenditure.

Figure 6.2 The Trends of Budget Allocation and Budget Realization



Nevertheless, the increase in percentage of budget allocation for capital (18% in 2006 and 12.5% in 2007) is lower than the increase in percentage of budget allocation for salary and for goods and services (27.8% and 37% in 2006 and 17.6% and 17.6% in 2007). The budget unit and the Treasury explained that this was affected by the implementation of unified budgeting and a new chart of accounts that reclassified several accounts, particularly from allocation for capital to allocation for goods and services¹⁷². But, as for the outcomes in terms of the trends of change¹⁷³, the increasing pattern for all expenses is apparent, except for the absorption level of goods and services expenses in 2007 (83.5%) that is slightly lower than the absorption level in the previous year (85%). Importantly the absorption of capital expenses was 85.6% in 2007 which is the highest level of budget absorption over the period. All of the stakeholders, either in the Treasury or line ministries, acknowledged that the trends of changing budget realization slightly increased during the last four years, although the trends of the realization of capital expenses was lower than that of wages and salaries and goods and services. However, some parties acknowledged that the results were not yet adequate,

¹⁷² In the previous practices, many costs of maintenance and cost of overhead salaries were classified as capital expenses. It is an implication of double budgeting system in the PEM system.

¹⁷³ The trends of changing budget absorption can be analyzed by comparing the figures between budget allocation and budget absorption, the absorption level between years, or the absorption level between entities or units.

particularly when the absorption is uneven during the budget year¹⁷⁴. Thus the outcomes for budget execution, as shown in the increasing trends of budget absorption, presented positive results but a sound distribution of budget absorption has not been accomplished, reflecting a poor action plan within line ministries and spending units. The presumption is that to a lesser extent this affected economic growth and development. Nevertheless, it indicates that the timely issuance of the budget document does not relate to an even absorption level in a budget year.

6.3.3. Budget Adjustment

Budget adjustment is a normal process during the budget year, because a budget itself is an estimate of revenues, expenditures, and financing, so it usually needs some adjustments in implementation. To illustrate, based on fieldwork data, in 2009 67.7% of the spending units proposed budget adjustments. Although this does not show the changes from the previous year, the figure is still significant. Considering the importance of flexibility in budget execution, one indicator of this is the ability of the system to support budget adjustment. In this section, the level of budget adjustment, in terms of clear authority, trends of changing and timeliness will be discussed.

Authority to Approve Adjustment

As the PEM reform is intended to improve the level of flexibility within line ministries in managing resources, this means that the system should support flexibility in adjusting¹⁷⁵ the allocation of resources, including budget allocation. The regulations already accommodate and set out the clear authority of each institution and provide more flexibility to spending units¹⁷⁶ (MoF, 2008f; 2009f). However, concerning the

¹⁷⁴ The outcomes were relatively similar to the previous outcomes before the reform in which the proportion of budget absorption usually increased in the third and fourth quarter of budget year.

¹⁷⁵ Theoretically it follows the approval authority of budget allocation whether by parliament, finance ministry, line ministry, or even by the spending unit.

¹⁷⁶ Spending unit has authority to change the detail of budget allocations as long as it does not change the elements of budget document. Before the reform, the role of line ministries at central level was significant to propose budget adjustment than the role of spending unit at operational level (MoF, 2002b).

details of the budget document, the regulations still follow the previous mechanism in that it has to be signed by the proxy of the minister at the central office. Although it reflects internal control, in practice it makes spending units face difficulties when adjusting the level of detail¹⁷⁷. Furthermore, although the Law provides a mechanism for budget adjustment by way of the issue of a supplement to the annual budget¹⁷⁸, it did not use this optimally to adjust initial budget allocations that have to be approved by parliament. Moreover, a mechanism of budget adjustment is not available after the issuance of the supplementary budget. All this confirms that the flexibility of budget adjustment to a lesser extent has been accommodated and regulated to approve the proposal of budget adjustment, particularly the roles of the budget unit and the Treasury. Nevertheless, it suggests that flexibility at the level of the spending unit is still limited and other budget adjustments that need the parliament's approval are still rigid.

Trends of Changing Budget Adjustment

The trends of changing budget adjustments reflect other outcomes of budget execution. The presupposition is that, after the reform, the amount of budget adjustments, particularly all adjustments which have to be approved by parliament or central agency, decreases while the level of flexibility, particularly at the level of spending unit, increases. The perspective of those in line ministries, was that they believed that for several years after the reform, the number of budget adjustment proposals slightly increased. This feeling was supported by the treasury officials (28.8%) and the staff (43.5%) although others (41.5% of the treasury officials and 34.1% of the treasury staff) considered that the figure was unchanged. It can be inferred

¹⁷⁷ Spending unit had to send the request to the central office. In practice, some spending units did not obey the regulations.

¹⁷⁸ In practice, the supplementary budget focused more on the approval of new programs, the adjustment of programs due to fiscal shocks, or the adjustment of macroeconomic indicators.

that the number of budget adjustments is still high,¹⁷⁹ confirming that after five years of the reform, it has not succeeded in reducing the number of budget adjustments, even though it indicates that the problems arose during the planning and budget preparation phases. Moreover from the data, the trends of changing budget adjustment between sub-activities within one activity are greater than other types of budget adjustment (61.3% of the treasury officials, 59% of the treasury staff), indicating that the trends occurred positively since the reform. In addition, although they need the approval of parliament, the trends of changing budget adjustment between spending units within one unit organization is lower than those between activities within one spending unit. This also reflects positive outcomes in terms of less intervention from the central office to spending units during the execution stage.

As for the trends of changing budget adjustment between spending units under a one-unit organization, although some of the treasury officials (26.8%) acknowledged that the trends were increasing, many of them (37%) considered that the figure was unchanged since the reform. Even within the Treasury, the perspectives of the staff were varied; some saw that it increased (43.5%) rather than was unchanged (34.1%) or decreased (22.4%). It suggest that the trends of change between spending units within a one-unit organization is not yet firm or is uneven, whether it increased, decreased, or was unchanged. Therefore it can be assumed that the trends vary across regions, suggesting that the expertise of spending units in making a work plan and budget varied accordingly. Furthermore, some of the treasury officials (39.6%) considered the trends of changing budget adjustment between economic classifications increased, as supported by the staff (57.4%); they even considered that these trends are higher than other types of budget adjustment. This also implies that there were positive outcomes in

¹⁷⁹ As noted by the treasury official, although the number of budget adjustment' proposals was relatively unchanged, the figure is still many.

terms of flexibility at the spending unit. Overall, it can be concluded that, since the reform, the trends of changing budget adjustment to a lesser extent have succeeded in shifting the expected types of budget adjustment; from adjustment between spending units within a unit organization and adjustment between activities within one spending unit to adjustment between sub-activities within an activity and adjustment between expense classifications within a sub-activity. This suggests that the reform has succeeded in giving more flexibility.

Timeliness of Budget Adjustment

Besides the quantity and the types of budget adjustment, another benefit of sound budget adjustment is timeliness of approval, particularly when an annual budget system is applied. It is argued that the longer the approval process the lower the level of budget absorption. Considering the critical function of approval, since the reform the budget unit has set 5 days¹⁸⁰ to process any proposal as long as all data are complete; similarly in the Treasury, the process of adjustment is also set at 5 days (MoF, 2008f). However, there was no such timetable within the spending unit or line ministry internally; the Treasury itself felt that it was the responsibility of the line ministry to develop its own internal control. Concerning timeliness, the data reveal that the process to adjust budget allocation between sub-activities and the budget adjustment between account classifications was relatively faster. The proposal was approved less than one month between activities within one spending unit, although some of the finance officers (17.2%) argued that it took longer, between 2 to 4 months. Being positive, the line ministries saw that the procedures to propose budget adjustment were clear. As for the outcomes, more than 60% of the stakeholders felt 'quite satisfied' or 'satisfied' with the timeliness of approval of budget adjustment. Overall it can be concluded that the

¹⁸⁰ Before the reform, the regulation stated that the budget unit needed two weeks to process a budget adjustment's proposal (MoF, 2002b); but in practice it was more than that.

outcome for budget execution in terms of the timeliness of adjustment approval was appreciated positively, suggesting that the level of services has improved. Nevertheless, this supports the previous finding that the Treasury did not provide adequate guidelines to line ministries.

6.3.4. Adjustment to Fiscal Shocks

In many developing countries, including Indonesia, budget allocation has often to be adjusted due to fiscal shocks. This issue is raised because in the previous practice, it took time just to adjust the budget document. Since the reform, there is no specific regulation accommodating extraordinary circumstances that affects the annual budget. In the system, the supplement to the annual budget is the only medium to adjust macroeconomic turbulence into the budget. So a similar mechanism¹⁸¹ to the approval of normal budget adjustment is applied. However, many parties complained about the speed of budget adjustment. The data show that it took between 1 and 2 months to adjust the budget document due to fiscal shocks, which is really significant in comparison to the twelve month period of the budget. Although 29% of the treasury officials said that it took less than 2 weeks, none of the finance managers shared the same opinion and only 3% of the spending unit managers agreed with it. Others (17.1% of the treasury officials, 24.1% of the treasury staff, 37.5% of the finance managers, and 25.8% of the spending unit managers) even stated that approval of the proposal took more than 2 months. Given this situation, although from the perspective of the Treasury it already supported fiscal shocks (68.9% of the treasury staff) at least 40% of the finance managers and the spending unit managers saw that the system was not yet effective for absorbing fiscal shocks. In addition, the effectiveness of the mechanism depends on the capability of the budget unit and the Treasury to undertake budget cuts

¹⁸¹ Usually the budget unit issued the budget circulation that had to be obeyed by line ministries and then the Treasury adjusted into the budget document later.

and to issue an adjusted budget document. In practice it was ineffective, due to lack of coordination between institutions and the unavailability of information¹⁸². All this suggests that the mechanism has not incorporated the adjustment of fiscal shocks into the expenditure management system adequately, as agreed by one of the finance managers¹⁸³:

...in my opinion, it (budget cut/freeze) is un-consistent policy, it is not in line with the concept of medium term expenditure framework. We do not have any assurance...however we understood global economic conditions. Frankly speaking it disturbed our performance... (The Finance Manager at ministry level – FM01)

So it can be concluded that the outcomes for budget execution in terms of the responsive mechanism to absorb fiscal shocks has not been developed well and that it contributed to poor budget execution and undelivered programs and activities.

6.4. Practices of Budget Execution at The End of Budget Year

The last crucial period is at the end of the budget year, an issue raised because, as in the previous discussion on the trends of budget absorption, many activities were executed during the last quarter of the budget year. Even the Head of the Provider Association complained that these affected the cost estimates and accused the government of doing this on purpose. Hence this section will explore whether all activities and budget allocations can be executed and accounted for within the budget year, and how undelivered activities and unused budget allocations are treated.

6.4.1. Treatment for Undelivered Activity and Its Budget Allocation

The system applies annual cash budgeting; therefore undelivered activity in a budget year will not automatically be supported in the next budget year. In practice, it did not affect the recurrent activities of spending units, but to a lesser extent it affected

¹⁸² As noted earlier, the system cannot provide the information concerning commitment and billing.

¹⁸³ But others were more accommodative; they expected that it occurred at the early period of the budget year so they had adequate time to adjust all work plans and budget allocations. It suggests that early adjustment is preferable because line ministries need time to re-adjust and re-prioritize programs, activities, and performance targets although in practice the budget cut was not always at the beginning of budget year.

national development when the prioritized activities were unable to be delivered within a budget year¹⁸⁴. Consequently, the supposition is that the positive implications of government expenditure to macroeconomic development were not achieved when the mechanism did not support the execution of activities. But, unlike program and activity financed from internal resources, development activity financed by foreign debt will not lapse¹⁸⁵ in the next budget year, suggesting that cash budgeting affects the connection between the planning phase and the budget execution phase. Furthermore, unused cash advance has to be transferred back into the treasury account and in the following budget year, the spending unit proposes a new cash advance again (DG Treasury, 2005b; 2009l; MoF, 2009b). But in practice, many spending units did not follow this regulation; they preferred to keep unused cash advance and adjust it in the following year. This shows that it is useless to order spending units to transfer back the balance of their cash advance at the end of the budget year when it will be used in the following year. In addition, there were no firm sanctions for disobedient spending units. Thus the mechanism at the end of the budget year is related to the purpose of an activity, the continuity of its financing, and its control by central agencies such as the Treasury. But if the reform is intended to provide financing and support programs and activities, this suggests that the mechanism of development activity financed by external funds can be applied to other types of activities as well.

6.4.2. Implications of the Cash Budgeting System

Although the Public Finance Law mandates the government to apply accrual budgeting, the system still uses cash budgeting¹⁸⁶ (MoF, 2003b). It is relatively no

¹⁸⁴ Many prioritized activities were approved in the supplementary of annual budget, for example fiscal stimulus activity, but the period of execution was inevitably limited. It even hampered many activities such as infrastructure projects in regions that needed more coordination with local governments.

¹⁸⁵ A renewal budget document will be issued at the beginning of the next budget year after the rest of budget allocation is verified by the Treasury as long as the foreign financing has not been closed (MoF, 2008f).

¹⁸⁶ Historically the Ministry of Finance applied a commitment budgeting system during the Dutch colonialism in which activity and its budget allocation was able to be extended until six months after the end of budget year (Bijloo, 1979).

different from the previous system which means that all payments and receipts are recorded on the basis of the year. An implication is that no payment orders are approved after the end of the budget year¹⁸⁷. In practice, due to the limit to the period of payment orders, spending units sent out payment orders although the activity was not yet delivered, the payment then being recorded as expenses. This demonstrates that the implementation of cash budgeting also breached the accounting concept. To illustrate, the BPK found that IDR 614.37 billion of payment transactions at the end of a budget year were not supported by evidence (SAI, 2008). In addition, many parties saw that the bank guarantee policy¹⁸⁸ was not adequate and effective to support the execution at the end of the budget year, as stated by these finance managers:

...for me, payment order should not be limited too early, it has to be (processed) until 31 December because maybe our activities are delivered until 31 December... there is bank guarantee but it creates cost for provider... (The Finance Manager at ministry level – FM03)

...I hope the future treasury system can eliminate the problem at the end of budget year...currently we use a guarantee letter as a solution...carry-over mechanism for specific transaction should be applied.... (The Finance Manager at ministry level – FM02)

It can be inferred that a cash budgeting system is really applied to support the roles of the Treasury in controlling budget execution and cash management rather than the roles of line ministry in delivering their activities.

In general it can be concluded that the outcomes for budget execution in terms of flexibility at the end of the budget year have not yet been accomplished. This occurred because the system still uses a cash budgeting system instead of an accrual or commitment budgeting system. Therefore the conclusion is that a cash budgeting

The system changed when the new Indonesia government found difficulty in implementing, considering poor human resources at that time.

¹⁸⁷ A payment order has to be submitted several days before the end of budget year because it has to be approved by the Treasury (DG Treasury, 2009d).

¹⁸⁸ The Treasury continues the policy that a payment during the last month of a budget year has to be supported by a bank guarantee.

system does not support the achievement of performance management at large because the time of execution is more limited.

In budget execution, the concept of public entity is relatively clear as stated in the Public Finance Law. It was reflected by the role of the President as CEO of state government and the roles of CFO and COOs within the entity. In practice, an annual budget that consisted of the budget requests from line ministries was proposed by the state government to Parliament; the budget was then appropriated to all line ministries in the Annual Budget Law. This indicates that the line ministry has no single characteristic as an independent entity. This study suggests that horizontal segregation, as applied to the line ministry, does not directly lead to the independence of institution as identified by Wanna *et al.* (2003) and Christensen and Laegreid (2007). Therefore, the authority of the CEO is related to the independence of the entity. In addition, the appointment of CFO and COO by CEO within an entity reflects a relationship between principal and agents.

The reform succeeded in the decoupling of roles between the finance ministry and line ministry by separating CFO and COO horizontally. The vertical segregation created new relationships and accountability between the minister and his proxy. As a consequence, his proxy was responsible for the execution of programs and the achievement of activities. However, there were several levels of proxy from minister to spending unit manager at the operational level due to the hierarchy of bureaucracy within the entity. Consequently, these hierarchical proxies needed the clarity of cascading authority and responsibility, which are more complicated than simply cascading both outcomes and outputs only (Premchand, 2005). Moreover, although at the operational level the reform was intended to appoint various types of financial officers, not all financial officers were appointed by the spending unit due mainly to a

limited number of qualified finance officers within the ministries. This is consistent with Dekker's (2004) study that setting control arrangements between actors requires a certain level of trust from principal to agent and the capability of the agent to perform. Therefore, this study shows a multiple principal agent relationship vertically, as identified by Berry *et al.* (2009) and Poth and Selck (2009). In addition, it suggests that the separation from one into several functions, as a consequence of reform, needs more actors who have relatively similar capabilities to undertake new functions. It further shows that the imbalance in the capabilities of agents can create poor check and balance mechanism and the intended results of the new control arrangements cannot be achieved as expected.

The concept of performance-based budgeting is difficult to be understand and apply, which can contribute to an unavailable grand design and slow implementation of the approach. Hence, this study supports that the context of advanced practices, as identified by Rose (2001), should be considered deeply. In addition, there was a poor capacity of line ministries, particularly in delivering new functions, which implies that the role of the finance ministry was less optimal in strengthening capacities. It suggests that the segregation between the finance ministry and line ministry, as identified by Christensen and Laegreid (2007) should be interpreted as the emerging obligation of a central agency to empower other institution. Moreover, this study affirms the connectedness of treasury functions as presented in the function of budget documents to support cash management and accounting and reporting. It suggests that reform needs to consider other related functions, as noted by Allen (2009). Importantly, all this points that a concurrent approach does matter in public sector reform.

6.5. Summary

The chapter has presented the important functions of budget execution in PEM, not only in executing activities and absorbing budget allocations but also in support of other treasury functions, such as cash management and accounting reporting. It suggests that the connectedness of budget execution to other treasury functions is horizontal. Moreover, the chapter shows that the implementation of shifting functions was not followed by the shifting of qualified human resources, sound operating procedures, and firm authority.

Concerning the critical periods in budget execution, at the beginning of the budget year, there has been some progress in outcomes in terms of the timeliness of the budget document and the appointment of responsible officers; even, in some spending units, they conducted the procurement earlier. However, some problems in the provision of cash advance and the issue of the details of the budget document occurred. Moreover, the study reinforces the significance of the functions of the budget document as well, although in practice not all functions have been applied; the system still focuses on the roles of the Treasury as financial controller rather than the roles of line ministries and spending units in delivering programs and activities. During the budget year, positive outcomes have been achieved as well. Year by year the percentage of budget absorption is getting better and the timeliness of the approval of budget adjustment is getting faster. But the percentage of un-absorbed budget allocation for capital expenditure is still significant. Moreover, although the rate of requests for budget adjustments was high, positively there is a shifting trend of the types of budget adjustment. Nevertheless, the mechanism is not yet flexible enough to adjust budget allocation during fiscal shocks. At the end of the budget year, the mechanism is somewhat similar to the previous mechanism before the reform, due to the implementation of a cash budgeting system

instead of an accrual or commitment budgeting system. In general, budget execution presents the dynamics of control and flexibility. Further discussion concerning flexibility and control will follow in Chapter Nine and the outcomes for other treasury functions will be presented in the subsequent chapters.

CHAPTER 7

IMPACTS AND OUTCOMES: CASH MANAGEMENT

7.1. Introduction

Although the White Paper (2002) emphasizes the need for professionalism of line ministries in delivering programs and activities, it is argued that it points to the Treasury as well, particularly in managing public money. Sound cash management as the expected outcome is achieved by supporting the execution of the annual budget and financing programs and activities, by minimizing borrowing and reducing its cost, and by reducing idle money and maximizing interest incomes (MoF, 2002a). Moreover as a public entity, government has to manage cash in order to stimulate the national economy at large; any decision to set fiscal expansion or contraction affects cash supply in the private sector as well, so the Treasury needs to control all cash flow and its utilization. In order to achieve these objectives, the Public Treasury Law requires the finance minister to establish a sound cash management system that covers both cash receipts and cash payments; conceptually the Law emphasizes the implementation of the single treasury account (MoF, 2004a). As indicated in Chapter Five, a linear approach in the implementation of strategies was applied to cash management, although a comprehensive strategic plan was not available. In this chapter, we explore further whether the new concepts, the implementation strategy, and the process support the achievement of the expected outcomes.

As for the perspectives of the stakeholders, generally more than 85% of the stakeholders already felt ‘quite satisfied’ or ‘satisfied’ with the outcomes for cash management. Nevertheless, compared with the satisfaction level for budget execution, neither the treasury staff nor the finance managers were as satisfied, although the spending unit managers held opposite opinions; in addition, some of the stakeholders were unsatisfied. Therefore the detailed achievements of cash management at the critical points will be explored; unlike budget execution that segregates the sections based on the periods in a budget year, the discussion in cash management will focus on the flow of money, particularly before and at the point of cash transactions. Firstly it will discuss in brief some aspects such as the scope of state cash, discretion for its utilization, and the system that supports cash management. Then bank account management, including the implementation of TSA and cash planning, will be elaborated, followed by the mechanisms of cash receipt and cash payment. Before the conclusion, the management of cash advance will also be presented.

7.2. Public Money under the Treasury

Before discussing the outcomes for cash management in detail, it is essential to show the connection between public money and cash management since a treasury unit cannot manage cash properly if the scope and boundary are not clearly known. The definition and the scope of public money are debatable¹⁸⁹, but the PEM in Indonesia broadly understands public money as covering not only the assets of the government but also other parties’ assets that are under the management of a public institution as well as other assets that are acquired by using government facilities (MoF, 2003a). However, viewing the state government as an independent entity, the government manages the

¹⁸⁹ Campo and Tommasi (1998) emphasize that public money is money managed by public entity and its institutions under the entity. Others include money that is collected from the public for public purposes by public institutions. Some limit public money to that which is presented in the annual government budget only.

money [hereafter referred as state money] separately, suggesting that public money is limited by the authority of that entity. Moreover, in order to connect the scope and the management, it is important to segregate that money that is managed directly under the control of the Treasury from that which is managed under another institution or person. To illustrate this, state money is that utilized by state owned enterprises (SOEs) as independent entities or by public service units as not-for-profit institutions under government entity¹⁹⁰, so institutions or persons that look after state money can be understood to be treasury agents. Furthermore, after the reform, a cash management system is developed and set up under the Treasury,¹⁹¹ to support the main role of the institution in treasury matters. This indicates, however, that the system is not very different from the previous system, although it has changed significantly since the early period of PEM in Indonesia,¹⁹² reflecting the interaction between the PEM system and the prevailing circumstances. All this confirms that the system of cash management has been developed, nevertheless it suggests that the system should consider the scope and boundaries of cash, the delegation of discretion, and related matters such as banking infrastructures. The postulate is that the governance has supported the roles of the Treasury not only in controlling but also in managing all state cash.

7.3. Bank account management

From the previous discussion, it is clear that banking services affect the cash management system. The Treasury does not keep state money in its offices any more; it is now kept at the banks. Consequently, the Treasury needs sound bank account

¹⁹⁰ Although managerially the SOEs are part of the private sector, the Law emphasizes the accountability of SOEs by attaching the summary of financial reports to the state financial accountability reports; in addition, the accountability of a public service unit becomes the attachment to the financial accountability of related line ministry (MoF, 2004a). Institutionally the segregation and accountability of public money is already arranged in the system.

¹⁹¹ It is supported by the central treasury office and 178 operational treasury offices across the country. The treasury agents in circulating the state money are primarily banks but post offices are still utilized. In addition, finance officers are appointed at line ministry as well. The system is supported by mixed mechanism between manual and automation.

¹⁹² After the independence period, the system was centralized supported by only 22 operational treasury offices. The treasury agent was post offices only because cash transactions mainly were delivered by the operational treasury offices themselves. In addition in line ministry, a finance officer as *comptable* at unit was appointed as well (Bijloo, 1979). At that time, the cash accounting system was delivered manually.

management. However, although the scope of public money is made clear in the reform, interestingly it seems that the Law defines state cash¹⁹³, particularly the general state cash account [referred to hereafter as the GSC account], as being more limited in scope (see Appendix 7). Although it supports explicitly the implementation of TSA that emphasizes the utilization of one main bank account at the Central Bank, it can be concluded that all the treasury bank accounts at operational banks are no longer recognized as parts of the general state cash. It is argued that the new framework of treasury bank accounts needs different bank account management. To explore the importance of bank account management, the system will be discussed in terms of opening, maintaining and controlling, as well as exploring the implementation of TSA.

7.3.1. Opening and controlling bank accounts

There were two main problems in bank account management before the reform, firstly there were many bank accounts, whether under the Treasury or under line ministries, and secondly some of them were not under the Treasury control and so not integrated into the financial reports. In the reform, the Public Treasury Law explicitly orders sound management of bank accounts¹⁹⁴ to support TSA, which means that all bank accounts have to be integrated and controlled by the Treasury (MoF, 2004a). In the system, the Treasury applies “one unit one budget document policy” which implies that each unit has only one bank account,¹⁹⁵ in order to control the number of bank accounts that are handled by finance officers at units. Moreover, within the Treasury all treasury bank accounts are managed either by the central office or by operational offices¹⁹⁶.

¹⁹³ The Law stipulates that all state money has to be put into the general state cash account that is opened at the central bank (MoF, 2004a).

¹⁹⁴ The Treasury sets five types of bank account; they are the GSC account at the central bank, the treasury accounts as subs of the GSC account, the treasury receipt account at operational banks, the treasury payment account at operational banks, and other treasury accounts at the central bank such as the treasury investment account and the treasury account for cash advance to support foreign debt activity (MoF, 2007e).

¹⁹⁵ But in another policy, the Treasury still provides flexibility if a unit wants to open more than one bank account, it needs the approval of the Treasury first (MoF, 2007b, 2010b; DG Treasury 2007a).

¹⁹⁶ There are some treasury accounts such as (i) treasury account at the branch of the central bank if in their region the branch is opened, (ii) treasury accounts at the appointed operational banks to support payment mechanism, (iii) treasury

Therefore it can be concluded that the number of bank accounts being held by spending units is no longer the main issue; though there are many spending units in Indonesia, the essential issue is that all bank accounts are under Treasury control directly or indirectly.

Given this problem, the Treasury has tried to govern all bank accounts, whether within line ministries or the Finance Ministry, by issuing policies¹⁹⁷ such as re-registration and sanction (MoF, 2007b; 2007c; 2007d; 2007d; 2007e). First the Treasury re-registered all bank accounts that were held by units. As a result, many of them¹⁹⁸ were approved to be kept, some of them were closed, and any suspicious accounts were reported to related audit institutions, such as an internal auditor, the BPK, or the Anti-Corruption Commission. More than 68% of the stakeholders (77.2% of the treasury staff, 68.8% of the finance managers, 81.1% of the spending unit managers, 90% of the disbursing finance officers) were 'quite satisfied' or 'satisfied' with the control of bank accounts by the Treasury. Moreover, to follow up the BPK's audit findings, the Treasury closed 24 bank accounts at the Central Bank that had a cash balance of IDR 1,468.5 billion, because of being transactionally inactive during the last two years (SAI, 2008). All this presents positive results. Interestingly the issue to promote reordering of bank accounts itself emerged from the Accounting Unit¹⁹⁹ within the Treasury instead of the Cash Management Unit²⁰⁰. In general, it can be concluded that since the reform almost all bank accounts, whether at the Central Bank or operational banks, have been

accounts at appointed operational banks to support the cash payment for wages and salaries expense, (iv) two treasury accounts to handle revenue sharing from the building and land tax and the right transfer tax for building and land (DG Treasury, 2008b). For tax revenue sharing, it usually is opened at the regional bank owned by local government.

¹⁹⁷ Even the policies were implemented without waiting the issuance of governmental regulation concerning cash management.

¹⁹⁸ Until the end of 2007, the Treasury approved 26,553 permanent and temporal bank accounts and closed 1,308 bank accounts and its cash balances which were IDR 6.25 trillion/USD 5.67 million were transferred to the GSC account. In addition 4,785 bank accounts were recommended to be closed by the Treasury and 3,078 bank accounts were recommended to be investigated further (DG Treasury, 2008i). To illustrate, the total cash balances at the BI increased significantly from IDR 954.31 billion (USD 100.45 million) at the end of 2006 to IDR 18,170.05 billion (USD 1,912.64 million) at the end of 2007 (SAI, 2007b).

¹⁹⁹ It emerged due to the disclaimer opinions of financial accountability reports and the findings and recommendations of the BPK to the reports.

²⁰⁰ As bank account management is a part of sound cash management, it supports the previous finding concerning poor integrated and comprehensive strategy of cash management at large.

re-registered and taken over by the Treasury in terms of opening, utilizing and closing them. Such actions provide a sound foundation for the implementation of TSA.

7.3.2. Treasury single account

As explained in Chapter Two, treasury single account is an approach to optimize the state cash by integrating all bank accounts into one main bank account. Therefore the Law mandates the Treasury to open a treasury single account²⁰¹ at the Central Bank (MoF, 2004a). Now, the issue is how to integrate all public money from scattered bank accounts at operational banks across the country. In the implementation of TSA, the Treasury had a sound strategy in terms of gradual implementation, either by cash receipt system or cash payment system,²⁰² and as a result the TSA has been applied to both the payment and revenue sides. Because the central treasury office opened the treasury payment accounts at the headquarters of operational banks, the implementation of TSA for payment became easier²⁰³. On the revenue side, in 2008 TSA simply integrated all banks' receipt accounts under only four treasury service offices²⁰⁴ into the GSC account. Initially, however, there was some resistance from operational banks who saw that they did not have the opportunity to manage idle floating cash any more before it was transferred daily to the Treasury²⁰⁵. This shows that the integration of the bank accounts for cash receipt was more difficult than for cash payment, particularly due to reduction in the floating time.

²⁰¹ Based on Appendix 7, even before the reform, the Treasury already set one main bank account at the Central Bank (MoF, 2002b).

²⁰² After the reform, firstly in 2006 the Treasury integrated the treasury payment accounts at 50 treasury service offices only across the country (DG Treasury, 2006b). Later in 2007, all of the treasury payment accounts under 178 treasury service offices were integrated into the GSC account (WB, 2007; DG Treasury, 2008; Kompas; April 15, 2008a).

²⁰³ The Treasury just controls the transaction between centers in which in every payment transaction the branch of operational bank just debits the account at the headquarters.

²⁰⁴ As a pilot project, it included all cash receipts except transaction from the land and building tax and the right transfer of land and building tax that would be applied later. The Treasury planned to integrate all bank accounts for receipt transaction under all offices across the country by January 2010 (MoF & BI, 2009).

²⁰⁵ In the previous system, the policy was to let operational banks collect cash receipt transfer twice a week on Tuesday and Friday regularly instead of daily transfer to the GSC account (DG Treasury, 2008b). In the implementation, the Treasury set the policy of floating time from two days (D+2) to one day (D+1); and then from one day (D+1) to at the end of working hours (D+0) gradually (MoF & BI, 2009). In line with the new policy, the Treasury pays treasury agents based on the number of financial transactions. When a late transfer from operational bank occurred, a fine is applied which is 0.1% from the un-transferred cash balance (DG Treasury, 2008b).

However, the bank accounts managed by disbursing finance officers and receiving finance officers were not integrated into TSA until mid 2009. As a transition period, since 2009 the Treasury has applied notional pooling²⁰⁶ to the bank accounts of disbursing finance officers (MoF, 2009a); this was applied gradually²⁰⁷ and the results were encouraging. In general, the Treasury succeeded in applying TSA gradually, strengthening the connection between strategies and outcomes. Although TSA has not yet been applied fully, current progress has moved towards the expected outcomes, confirming that implementation has to be supported by sound bank account management. Considering the success of notional pooling, further study is needed to find whether it is more important to consolidate all bank accounts into one main account or to control all bank accounts electronically. Although integration itself is a type of control, it is suggested that control is more important than the integration of bank accounts, considering the several layers of treasury agents, infrastructure costs, wide areas of service, and utilization of integrated cash balances. Thus it is suggested that sound cash management in terms of TSA needs further consideration of costs and benefits, both financial and non-financial.

7.4. Cash Planning

Besides bank account management, cash management also needs sound cash planning, to predict cash flow into bank accounts that are already open. Importantly it also needs the management of cash-mismatch between estimated cash receipts and expected cash disbursements. In view of this important requirement, there is a need to discuss cash planning in terms of the responsible units, the connection between cash

²⁰⁶ In the previous system, the interest income of cash balance was recorded and reported by finance officer at unit independently but the management was uneven due to relatively less significant interest revenue individually. By applying notion pooling accounts at the headquarters of each operational bank the integrated interest income is sent directly to the GSC account.

²⁰⁷ The notion pooling account for the bank accounts of receiving finance officers will be applied later.

planning and cash transaction, the details of planning and information, and the management of minimum cash balance, cash surpluses and cash deficits.

7.4.1. The roles of the Treasury and related institutions

Cash planning becomes a challenge in the reform because it has not been applied before and almost all data are held by related parties outside the Treasury. This raises a question concerning the roles of the Treasury and other parties in preparing sound cash planning. The issue of the ownership of cash planning emerged at the early stage of the reform: whether it was the role of the Treasury or of other institutions. In practice, the Treasury ordered all units both within line ministries and the Finance Ministry²⁰⁸ to present weekly cash planning (DG Treasury, 2006a). As a result, the initial implementation of cash planning was uneven, because of poor awareness, skills and especially ownership of cash planning within line ministries (DG Treasury, 2009c). The next effort was to order treasury service offices to send daily cash planning to the central office but the results were similarly erratic²⁰⁹ (DG Treasury, 2007c). However, one of the treasury service officials claimed that sound cash planning could be achieved within his region. All this confirms that although it is difficult to set clear roles, particularly when the roles are connected with other units, it is the duty of the Treasury to consolidate all plans into general cash planning. This reveals the important role of finance officers at related units in supplementing a cash plan to the Treasury, particularly when the Treasury does not hold good time series data internally and does not have good control prior to the point of cash transaction. In addition, it can be inferred that units to some degree can present a sound cash plan, as long as the benefits

²⁰⁸ Cash planning information network (CPIN) was established to connect the data mainly from central units such as debt unit, tax unit, customs and excise unit, and budget unit (DG Treasury, 2009c).

²⁰⁹ Even in 2008, cash planning was supported by an application system for spending unit to present the plan but the results were similar mainly due to poor awareness of units and poor verification of treasury service office (DG Treasury, 2008d; DG Treasury, 2009c).

of the cash plan are explained clearly; it supports the previous finding that the reform needs the awareness and involvement of stakeholders.

7.4.2. The connection between cash planning and cash transaction

To enhance the awareness and involvement of related units, information on the connection between cash planning and cash transactions is essential. In cash planning, the sequence is: aggregate annual budget, budget allocation for the unit, action plan, cash payment. Moreover there are several stages from action plan to cash payment, namely: procurement, commitment, liquidation, billing, payment order, payment approval, and cash payment. This indicates there are two important sequences in PEM that affect the cash plan, however the critical point in sound cash management is how to connect cash planning to cash payment, considering that one function of cash planning is to support and ensure the payment process. In practice, although treasury service offices have tried to develop daily cash planning, it has not yet achieved the expected results in terms of a connection between cash planning and cash payment. This is because it was the Treasury that mainly controlled the payment order stage. In addition, the Treasury did not have enough time to manage cash mismatches between the payment order and approval, seeing that it set only one hour for approval (DG Treasury, 2008b), confirming the inadequate connection between daily cash planning and cash payment²¹⁰. In general, sound cash management in terms of predictable payment process has not yet been achieved due to poor connection between cash planning and the point of cash transaction. In addition, this confirms that it is essential to control the

²¹⁰ Poor connection also existed between cash receipt plan and the point of cash transaction considering that in practice the cash receipt planning was used particularly to monitor between target and realization only. Similar to cash payment, *ex-ante* control in terms of account receivable was not developed adequately. Moreover the system has not established an account receivable officer as the function that is mandated by the Law. The system still can not predict cash receipt except for some tax receipts that is set when there are any discrepancies between the payment by self assessment and the calculation of official assessment. It indicates that the policy of self assessment made the Ministry of Finance loosen *ex-ante* control.

stages before payment order, such as commitment or billing, in order to predict the liability of the government and its readiness to pay.

7.4.3. Details of cash planning

The details of information in cash planning depend on the treasury unit; the extent to which the detail is needed is reflected in the form and frequency of planning documents. After the reform, cash planning has to support other treasury functions as well²¹¹. In practice, due to poor control prior to the stage of payment order and poor connectedness to the account classifications, the cash planning does not yet support other treasury functions optimally. Moreover, the details depend on the utilization of cash or bank accounts as well; if a limitation exists, specific information has to be arranged. In practice, although there are several types of treasury bank accounts at the Central Bank, the cash planning did not reflect or connect to the various functions of bank accounts. Furthermore, these details can also be used to control cash payments, particularly by setting an assured amount for transactions; if a payment order is higher than this set point, it needs more time for processing. In practice, all types of payment orders, whatever the amount, except payment orders for salaries and wages²¹², were processed similarly; in addition, there was relatively no floating time from the time that the payment order was received by the Treasury to cash disbursement. All this suggests that cash planning has not supported in detail the objectives, the utilization of cash and bank accounts, and the control of the amount of transactions.

There are several periodical types of cash planning; the supposition is that the shorter the period of cash planning, the better the reliability of information. In the system, cash planning is presented through monthly, weekly, and daily cash planning

²¹¹ To illustrate provide the assurance of payment for goods and services that are rendered.

²¹² But, although the amount of cash payment for salary and wages was big, the figure, relatively, was able to be predicted.

documents,²¹³ showing that the Treasury implements all types of cash planning. In daily cash planning, the data are collected not only from the Treasury but also from spending units in the form of the data for salaries and wages, additional salaries and wages, and for other than salary or wage amounts. However, in practice the data were unclear because they did not reflect economic classifications, considering that non-salaries and wages can either be services or capital expenditures; in addition, they were not related to the bank accounts²¹⁴. In monthly cash planning, the same format has to be presented by spending units in the form of the weekly estimated cash flow within a two month period. Thus the Treasury requests more detailed information²¹⁵ in monthly planning; although in practice the reliability was questionable because some changes probably occur during a week. However, unlike cash payment planning, the Treasury does not request similar information concerning cash receipt planning; the spending unit is requested only to present monthly and weekly cash receipt planning²¹⁶. It can be inferred that the Treasury cannot present a general daily cash plan when the data from daily receipts are unavailable, suggesting that the Treasury focuses particularly on weekly cash planning in managing cash surpluses and deficits. All this indicates that although certain outcomes have been achieved, poor connection between quarterly, monthly, weekly/daily cash planning still exists, confirming that the Treasury is still looking for the appropriate information, template and integrated system.

²¹³ The information of monthly cash plan is collected from the annual budget document, the information of weekly cash plan is collected by other monthly reports from related units and the information of daily cash plan is collected from the request of transfer payment from treasury service offices across the country (DG Treasury, 2008b; 2009c).

²¹⁴ The treasury bank accounts at the central bank did not segregate the accounts for salaries and non-salaries specifically.

²¹⁵ It presents the information concerning all programs, activities, sub-activities, sub-sub activities and the detail of accounts as well. In addition, the information is also presented into the type of activities and the type of accounts; whether the activities are contractual and non-contractual and whether the accounts have been contracted and not.

²¹⁶ The information is presented in general accounts in terms of a 5 digit account instead of the detail account which was a 6 digit account.

7.4.4. Minimum cash balance

Another important element of cash planning is the determination of a minimum cash balance²¹⁷. Theoretically the operational cash balance has to be minimized in order to optimize the placement of excess cash and minimize the cost of borrowing. So it is essential to explore the minimum cash balance in terms of bank account, amount, and flexibility. One approach is to establish an operational bank account. Since 2009 the Treasury has opened an investment bank account at the Central Bank and utilizes the GSC account as the operational bank account. It seems, however, that the function of the GSC account has become more limited²¹⁸. Furthermore, the amount of minimum cash balance reflects a feeling of safety in holding cash²¹⁹. In the system, the Treasury sets the average daily minimum cash balance to IDR 2 trillion and to USD 1 million²²⁰ and the amount in excess of the minimum cash balance is transferred into the investment bank account (MoF & BI, 2009). Moreover, since this gap fluctuates during a budget year, the option is whether the balance will be pegged to a certain amount of reserve money or will be adjusted gradually. In the system, the Treasury and the BI have agreed to adjust and revise the balance every 6 months (MoF & BI, 2009). It can be concluded that the management of minimum cash balance in terms of flexibility is done in the system. However, because the Treasury does not have any daily cash receipt plan to support a daily minimum cash balance, the management of a cash balance favours a weekly cash receipt plan, suggesting that to some extent the system is supporting sound cash planning.

²¹⁷ It means that how much money has to be reserved; although cash planning is already set, even a daily cash plan is available, an unpredicted fluctuation sometimes occurs. In addition, it connects to the decision whether to invest or borrow cash surpluses/deficits.

²¹⁸ It means that the cash balance at the GSC account is treated as minimum cash balance (DG Treasury, 2009b; MoF, 2009d). In addition, it implies that the GSC account is only a temporary place to put the state money considering that the excess amount from minimum cash balance is put in the investment bank account.

²¹⁹ It relates to circumstances such as the average gap between cash receipt and cash disbursement, the time which is needed to transfer from other restricted bank account such as investment bank account to operational bank account and the frequency of transactions.

²²⁰ The Treasury opened not only the USD bank account but also JPY bank account at the Central Bank considering the importance of the currencies in financing the budget.

7.4.5. Cash receipt and cash disbursement plans

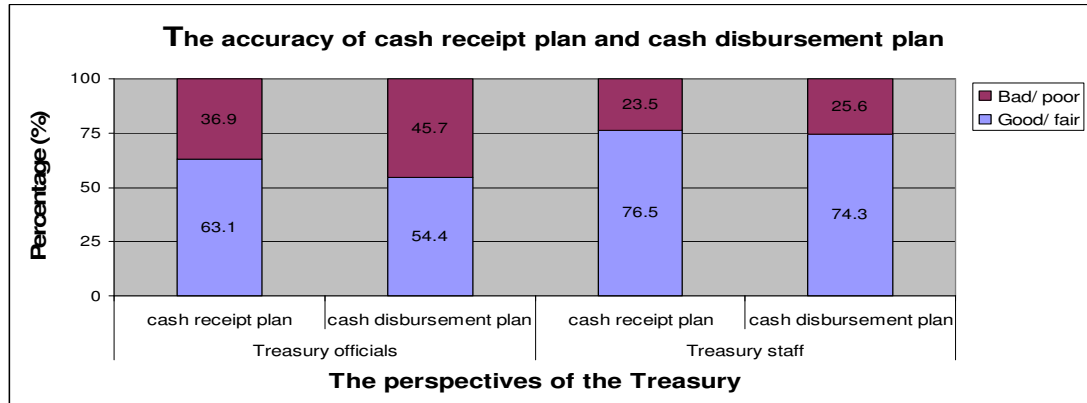
Besides the connectedness between plans, the quality of the cash plan is affected by comprehensiveness and updating as well. In the system, the data of monthly cash planning are collected from budget documents; this has been the case since 2005 (DG Treasury, 2005b). It is not problematic if all annual appropriations can be detailed into budget documents from the beginning of the budget year. But in practice, the appropriations have not been submitted to budget documents from the beginning of the budget year. For instance, at the end of the budget year, the budget unit issued budget allocations for subsidies or other types of non-discretionary²²¹ budget allocations (DG Treasury, 2008e; 2009d), consequently contributing to poor cash planning by uncovering earlier information. Moreover, although the regulations order the spending unit to adjust the budget document quarterly if any change happens, in practice it did not work smoothly because the spending unit was concerned more with the changes of budget allocations than with the monthly cash plan, showing that, although the Treasury tried to develop a cash planning system, it did not reflect all budget allocations of annual budget and it was not supported by sound updating data; thus the cash planning has not provided reliable results.

This is supported by the survey results; although the majority of the spending unit managers (82.4%) were satisfied with the accuracy of cash planning, the perspectives of the Treasury are lower (32.4% of the treasury staff and 56.3% of the finance managers), showing that the Treasury was not yet satisfied with these

²²¹ Although in some references the segregation between discretionary and non-discretionary budget allocation focuses on differentiation in terms of law obligation, minimum governmental services, or committed programs, in this study it focuses on differentiation in terms of the holder of budget appropriations and the delivery of service. Therefore budget allocations are divided into discretionary allocation that most of them are under line minister such as salaries & wages, goods & services, and capital and non-discretionary allocation that most of them are under the finance minister such as subsidies, social benefits, interest payments, and other transfer payments.

achievements²²². However, the Treasury acknowledged that the cash receipt plan was slightly more accurate than the cash disbursement plan (Figure 7.1).

Figure 7.1 The accuracy of cash receipt plan and cash disbursement plan



It can be inferred that the cash planning focused more on supporting the payment process than on the receipt process. Another significant indicator of sound cash planning is the utilization of a plan for managing cash-mismatch. Notwithstanding this, in practice, many parties were not yet satisfied with the outcome. Therefore, although to some extent cash planning was available, cash management at large was not yet effective due to poor connection between cash planning and cash-mismatch management, particularly to poor connection to debt management²²³. All this demonstrates that the quality of cash planning in terms of reliability is still poor.

7.4.6. Management of cash surpluses and deficits

With cash planning, the gap between the estimated cash receipt and the estimated cash payment can be figured out. Cash-mismatch management, in terms of fulfilling and utilizing this gap, is a part of the treasury function²²⁴. In the system, in

²²² The Treasury itself acknowledged that the results of initial implementation of cash planning in 2006 were too general and inaccurate, no sanction applied, only delivered by a small number of units, even many treasury service offices did not send the plan anymore (DG Treasury, 2009c).

²²³ The debt management unit imposed a front loading strategy in which the unit focused on the issuance of treasury bonds more based on aggregate budget deficits than based on the prediction of monthly cash-mismatch. The debt unit waited sound cash planning from the Treasury first before enhancing connectedness (Waluyanto, 2009).

²²⁴ In many practices it can be segregated particularly when a country establishes cash unit, debt unit, or probably investment unit in order to maintain check and balance mechanism.

fulfilling cash deficits the Treasury has to ask²²⁵ the debt management unit, which was previously under the Treasury (MoF, 2007a). For surpluses, it is the responsibility of the Treasury to invest them, either at the Central Bank or commercial banks but any placement at the commercial bank has to be coordinated with the Central Bank first²²⁶ (MoF, 2007a; 2010a). However, the regulations do not state explicitly the terms of cash mismatch management under the Treasury. In practice, the Treasury just lodges the cash surpluses at the Central Bank; the Bank agreeing to provide interest revenue²²⁷ for all government cash balances (MoF & BI, 2009). Nevertheless, it seems less than optimal; based on the financial report of 2008 the figure of interest revenue decreased from IDR 687.54 trillion in 2007 (1.17% of the total non-tax revenues) to IDR 498.96 trillion in 2008 (0.74% of the total non-tax revenues). Moreover, although the public investment agency²²⁸ was established under the Ministry of Finance in 2007, it was not utilized to support the investment of cash surpluses. Instead of using other institutions' assistance, the Treasury proposed to run a dealing room²²⁹ in order to execute cash surpluses in particular (DG Treasury, 2009c). All this indicates that sound cash mismatch management has been applied, but that the Treasury itself needs flexibility, especially in managing short-term cash surpluses and deficits. The Treasury needs discretion in making real time transactions²³⁰ in order to maintain minimum cash balance, although, on the other hand, the Treasury did not utilize other institutions or treasury agents optimally. Hence cash-mismatch management needs coordination between the Treasury,

²²⁵ Although it is already regulated, in practice the Treasury has not taken this option yet since operationally the Treasury never faced cash deficits since the reform as the implication of the front loading strategy.

²²⁶ The coordination with the Central Bank is emphasized due to the bank's concern on the amount of circulated money.

²²⁷ The Central Bank agreed to give 0.1% per annum for the GSC account, 65% of BI rate for the investment treasury account, and for non IDR currency the interest rate was 65% of foreign exchange home currency rate (MoF & BI, 2009).

²²⁸ Public Investment Agency (PIP) is to support Finance Minister in investing public money in terms of direct investment, securities and shares (MoF, 2007i).

²²⁹ However, the extent to which the Treasury needs a dealing room independently is debatable considering another unit which is the debt management unit already has the room and moreover the Treasury has treasury agent as well such as the Central Bank. Importantly the skilled human resources are not yet available.

²³⁰ After the reform, the Treasury is supported by the electronic transaction system that is developed by the Central Bank namely BIG-e-B (Bank Indonesia and Government electronic-Banking). In 2008 the system was just used as an informational system but later it is used as a transactional system as well (DG Treasury, 2008i).

the banks as treasury agents, and other units that support placing cash surpluses and fulfilling cash deficits.

7.5. Cash Payments and Receipts

In Chapter Three, several persistent problems in cash payment were presented, such as payment arrears, payment frauds, and floating undelivered transfer payments.

However it seems that after the reform, frauds still occur:

...One criminal case happened in a treasury service office. There was a person proposing a payment order and claiming from our ministry...it made the Treasury loss IDR 9 billion. Although there were some efforts from the Treasury to control the system, it shows that the current control is still poor... If it happens once, it can happen again later... (The Financial Manager at ministry level – FM01)

...the superiority of the treasury officials and staff is their integrity. When they do not act in good faith, public money will be distorted. I believe that the security in treasury management is not strong enough. It is really vulnerable. By using faked payment order and having collusion with treasury officer, it was broken down... (The Head of regional treasury office – TRS04)

Such observations indicate that the system still has poor control over payment orders, authorized officers, and cash receivers, even though the perspective of the stakeholders in the fieldwork data was positive. In comparison with the previous system, an overwhelming majority of the stakeholders (97% of the disbursing finance officers and 96.8% of the providers) felt that the payment mechanism had got better. To understand this further, the cash payment and cash receipt mechanisms and practices will be explored in this section. Firstly it will present the prior control on cash transaction because it is argued that this affects the practices.

7.5.1. Control before the point of cash transaction

These practices will be assessed against some general principles²³¹ of the reform.

So control before cash transactions will be discussed in terms of controlling the

²³¹ The Law emphasizes some principles such as no payment order without the liquidation of goods and services, no payment without the approval of the Treasury, all cash transactions coming into or going from the GSC account (MoF, 2004a); two former principles reflect the *ex-ante* controls of cash transaction.

availability of cash, the authorized officer, accounts, the cash receiver, and the payment order document. In the earlier discussion, cash payment is connected to daily cash planning by way of a cash transfer request²³² from the treasury service office to the centre (DG Treasury, 2008b; 2009h). However, in practice, some problems occurred; the Treasury was unable to control whether every approved payment order was already included in the daily cash transfer request, indicating that poor connectedness and control between cash planning and cash payment existed. Other prior control is by validating the responsible officers who authorize the payment order within the spending unit. In the system, this is reflected in the list of officers in the budget document. In addition, each treasury service office keeps a specimen of each officer's signature. Payment orders are signed by a commitment officer and a payment order officer (MoF, 2005a); in the previous system it was signed by the spending unit manager only. This reflects the effort of the reform to keep a distance in the role of proxy of minister from the details of transactions, although others have argued that the signature of the spending unit manager itself reflected control by the manager of the finance officer (Soeriaatmadja, 1986). Nevertheless, in practice, double signatures seemingly did not guarantee adequate control when frauds occurred²³³. This emphasizes the importance of controlling authorized finance officers within the spending unit, although it seems that simply identifying authorized officers is not adequate either.

Regarding the control of accounts within the spending unit, in the system after goods and services are rendered, a commitment officer debits the details of the account and sends a payment request to a payment order officer. The payment order officer verifies the request, including the details of the account and then sends a payment order

²³² In the previous system, there was no daily cash transfer request; the Treasury provided cash to the operational bank based on the approval payment order instead of payment order itself.

²³³ Later many treasury service offices controlled not only the person signing the payment order but also the person delivering the order. The utilization of non-electronic documents in the system made it necessary for every hard copy to be sent physically.

to the treasury service office. In practice, however, although the detail of accounts is at the discretion of the spending unit, at the payment stage the Treasury controlled the detail of account instead of the general account (DG Treasury, 2005b), implying that in the reform the Treasury relinquished control over the general account in budget execution but maintained control over the detail of accounts in payment. This suggests that the reform did not succeed in segregating the ownership of accounts and achieving a balance between managerial flexibility and accountability.

Furthermore, sound cash payment has to be controlled not only by the authorized officer but also by the authorized receiver. In the system, the Treasury still controls the providers of goods and services, but unlike the previous system the data are provided electronically. However, in practice the information was inserted when a payment order was sent to the Treasury, meaning that the Treasury did not have any control before receiving the payment order. It can be inferred that the Treasury was unable to appropriately verify the authorized cash receiver except for the payment orders for salaries and wages or for multiple payments. As a result, many approval payment orders were not delivered properly and even created floating undelivered cash payments²³⁴. This confirms that the system is still not adequate in controlling the receivers of cash payment, particularly payment orders for non-wage or salary transactions.

Another crucial control is the payment order document itself because all the information discussed above is presented in the document. Before the reform, considering that the function belonged to the Treasury, all payment order documents were standardized in terms of the template and forms issued officially by the Treasury (MoF, 2004b). After the reform, although the Treasury sets the standard for the payment

²³⁴ Although later the Treasury issued the policy to handle undelivered cash payment, it did not fix the root problem in terms of uncontrolled cash receiver (DG Treasury, 2008h).

order template, the forms are issued by each spending unit (DG Treasury, 2005b). So, in practice, it seems that the level of control was not adequate particularly since it did not guarantee that the form and the payment order document were issued by the responsible unit. In addition, although the spending unit gave the number of each payment order, it did not have control over the utilization of the form, because there was no pre-numbering of the form. Therefore, although to a certain degree some controls existed before the point of cash payment, frauds happened because of poor control of the forms. All this confirms that the mechanism of cash payment has not yet provided adequate *ex-ante* control.

Concerning control over cash receipts, in practice certain *ex-ante* control exists in terms of the information of tax and non-tax payers' data that are recorded and maintained by related units²³⁵. However, there were tax and non-tax payers who had not been registered in the system; so their transactions were rejected by the cash receipt application system (DG Treasury, 2008b), indicating that the system is not yet flexible in accommodating unregistered payers. Moreover, as noted earlier, the related units were unable to predict the cash receipt from tax and non-tax revenues, except for regular cash receipts. In addition, due to the poor billing system, there is no control on accounts before the point of cash receipt although the account is available in the receipt document. But, unlike payment orders, in the cash receipt system, the forms are still issued by the Ministry of Finance, except for the form for non-tax revenue where every unit prints its own form. This suggests that there is control of cash receipt on the form. However, in the same way as for the cash payment system, generally the *ex-ante* controls are not yet adequate.

²³⁵ The units whether tax unit or other units collecting non-tax revenues have to actively update data.

7.5.2. Cash payment and receipt mechanisms

Cash payment mechanism

Based on the fieldwork data, almost all of the stakeholders within line ministries (93.8% of the finance managers, 94.1% of the spending unit managers, and 96.6% of the disbursing finance officers) felt ‘quite satisfied’ or ‘satisfied’ with the payment of goods and services. In addition, both the disbursing finance officers (97%) and the providers (96.8%) acknowledged that the mechanism of cash payment was better than it had been before the reform, indicating that the payment mechanism already supported the working relation between spending units and providers of goods and services. The payment mechanism will next be discussed in more detail, in terms of banking arrangements, types of payment, and processing time.

To support the cash payment system, the Treasury appointed the operational banks and segregated them²³⁶ on the basis of treasury services. Technically, at central level the Treasury transfers cash from the GSC account to the treasury payment accounts at the headquarters of operational banks; it is then debited by their branches (DG Treasury, 2008b). However, it is argued that the segregation between the first and second types of operational banks is not significant; their roles are not really different. The Treasury can transfer cash directly to the second instead of through the first operational bank. The effectiveness of the segregation of operational banks is questionable. Furthermore, although the treasury service office sends the cash transfer request daily²³⁷, in practice it had problems because of inadequate amounts of money allocated to the headquarters of operational banks. This occurred due to lack of control

²³⁶ Before the reform there were five types of operational banks but in the later system the treasury appointed three types of operational banks which were the first bank for delivering non salaries and wages payment, the second bank for delivering wages and payment, and the third bank for delivering intergovernmental transfer in terms of land/building tax and right transfer tax for land/ building (DG Treasury, 2008b).

²³⁷ The daily cash planning is applied in terms of accumulating payment requests from treasury service offices to the central office. The offices can request transfer payment to the central office three times a day (DG Treasury, 2008b).

on approved payment orders debiting the treasury payment account²³⁸. This shows that the utilization of the treasury payment account at the headquarters of operational banks to cover all approved payment orders across the country had poor control as well.

After the reform, the system still applies two types of payment order, direct and indirect²³⁹ (DG Treasury, 2005b). The mechanism has not changed from the previous system, although in the earlier system the Treasury applied and emphasized the segregation between real expense and temporary expense²⁴⁰ (DG Budget, 1999). The reform was to enhance the utilization of direct payments and minimize the utilization of indirect payments, considering that indirect payment by using cash advance reflects idle money at the spending unit. This implies that each type of payment needs different control. However, in practice it did not apply fully because the Treasury used the direct payment order for cash advance to the provider at the beginning of a contract and for final payment to the provider at the end of the budget year, even though goods and services were not rendered fully. Moreover, many direct payment orders for salaries, wages, and travel costs were transferred to disbursing finance officers at the unit instead of directly to the real beneficiaries, supporting the previous finding that the Treasury had poor control over cash receivers; the mechanism still utilizes disbursing finance officers as the controllers of some direct payment orders. Therefore, although the Treasury applies control on cash payments, in terms of the types of payment order, in practice some discrepancies occurred. It suggests that the PEM system does not eliminate the utilization of cash advance, but is a way of controlling the utilization without creating large amounts of idle money.

²³⁸ The Treasury complained that some operational banks kept the cash first although payment orders have not been approved by treasury service offices. But, the bank defended that treasury service office itself asked the bank to block certain amount of cash as reserves for the other payment orders in process (DG Treasury, 2008b).

²³⁹ Conceptually a direct payment order is a payment after all goods and services have been rendered and it is transferred to the provider of goods and services directly. An indirect payment order is a payment before all goods and services have been rendered and it can be transferred to the provider or appointed finance officer/unit that are responsible for the management.

²⁴⁰ In the earlier system after independence, payment mechanism was segregated based on the types of expense in terms of whether payment was already verified by the treasurer and debited budget account or not (DG Budget, 1999).

Although the payment order mechanism is already set, certain dispensation is given to spending units. To illustrate, although the rules mention that transactions over IDR 10 million²⁴¹ have to be paid using direct payment orders, many spending units asked the Treasury to pay transactions by using a cash advance. In practice, 51% of the spending unit managers proposed such dispensations in 2009. As Table 7.2 shows, after several years of the reform, the treasury staff and the spending unit managers considered that the number of dispensation proposals were unchanged or had increased, even though the treasury officials believed that it was unchanged or had decreased. At any rate, the majority of the stakeholders considered the number unchanged; this also indicates that the flexibility had not changed from the previous system. The different perspective of the treasury officials probably reflects that many dispensations were approved at the level of treasury service office instead of a higher level, suggesting that flexibility is needed at this stage of payment process.

Figure 7.2 Dispensation proposals

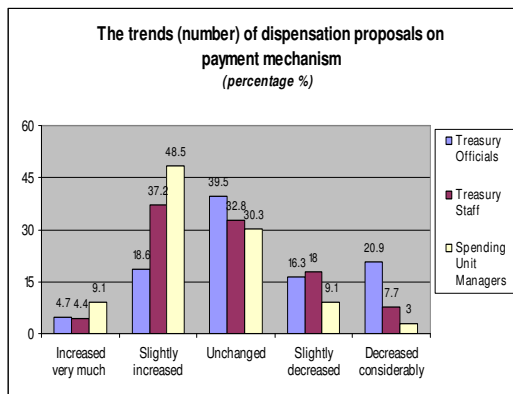
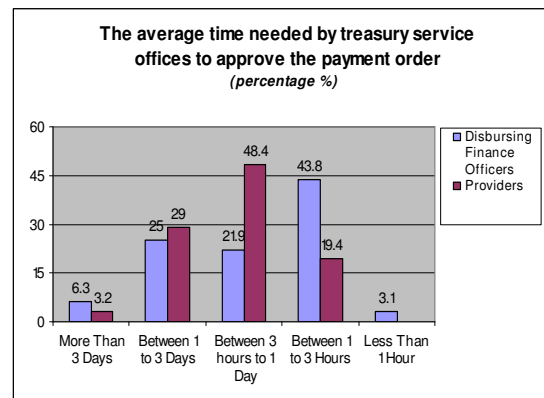


Figure 7.3 Approval of payment orders



In the system, the Treasury, particularly the modern treasury service office, has settled on no more than one hour for verifying payment orders²⁴² from spending unit (DG Treasury, 2008b); in the previous system it took eight hours for approval. In practice, as Table 7.3 shows, only 3.1% of the disbursing finance officers acknowledged

²⁴¹ In the previous system, the limit was even lower that was IDR 5 million (MoF, 2002b).

²⁴² For salaries and wages payment, the mechanism is similar to the system prior to the reform.

that payment orders were serviced in less than one hour, but the majority of the officers and the providers agreed that on average, payment orders were approved within one day, still reflecting a good outcome. This has happened because the system did not connect electronically²⁴³ to the operational bank. However, although within the Treasury the payment process is set, within the spending unit there is no prior control on how long an invoice can take to be processed. Consequently providers still take account of the value of money in every contract due to the low certainty of the payment process at the spending unit. Therefore although the mechanism sets the payment process within the Treasury, it has not succeeded in giving assurance to providers concerning this time, particularly between the point of sending an invoice and the point of cash payment.

Cash receipt mechanism

The banking arrangements for cash receipts are different from cash payments. In the cash receipt system, the roles of the BI, particularly the roles of its branches, are significant; all cash receipts from operational banks have to be transferred through the treasury bank account at the Central Bank branch across the country, signifying that the Central Bank²⁴⁴ and operational banks have different roles for cash receipt and cash payment systems. This presumes that the Treasury focus is mostly on cash disbursement matters. Even the treasury official acknowledged that the development of advance cash receipt system was taken over by the tax unit rather than by the Treasury itself. In practice, since 2007 the Treasury has implemented an application system for payment, namely the module for cash receipt (MPN)²⁴⁵ (DG Treasury, 2008b). All tax and non-tax payers whether persons or institutions, and receiving finance officers make payments at the appointed operational banks. The banks are connected to the MPN

²⁴³ The Treasury had to send the approved payment orders to the bank periodically in a day.

²⁴⁴ At the early period of service, the Central Bank got involved evenly in cash receipt and cash payment systems.

²⁴⁵ Although there were some problems in the implementation of the application, the Treasury gradually fixed the problems and even intended to develop the second phase of the cash receipt application system by centralizing the process at the central treasury office.

although they have their own systems to input cash transaction. This demonstrates the effort of the Ministry of Finance to use banking services in the cash receipt mechanism in practice, unlike previously, when operationally the bank inputted tax or non-tax payer data and requested approval from the treasury centre²⁴⁶ electronically in order to get an electronic approval transaction number.

However, a good application system needs to be supported by reliable data; poor *ex-ante* control in terms of payer data contributes to the lower performance of operational banks in filtering cash receipts adequately at the point of transactions. In practice, the banks focused on inputting the amount of cash receipts instead of verifying the correctness of data and accounts. As a further consequence, to some extent the Treasury did not get reliable data²⁴⁷ concerning cash receipt transactions. All this confirms that the cash receipt system is more sophisticated than the cash payment system, although to a certain degree it is less optimal in delivering sound control at the point of cash receipt transactions. This suggests that although there is an issue concerning ownership, the Treasury has succeeded in developing a sophisticated electronic cash receipt system. In addition, this confirms that electronic treasury approval can be applied in PEM, with the assumption that the approval is applicable to the cash payment system as well.

7.6. Cash Advance Management

Another critical point of cash management that is felt directly by budget users is the utilization of cash advance. The Public Treasury Law permits line ministries to hold certain cash advance to support operational activity (MoF, 2003a). It becomes crucial

²⁴⁶ Due to the treasury centre being set up at the tax unit instead of the Treasury, it made some parties in the treasury question the ownership of the cash receipt system. Historically the module for cash payment (MPN) was an integration of some cash receipt systems such as tax revenue application system, excises revenue application system, and treasury application system (DG Treasury, 2008b).

²⁴⁷ Later the Treasury set an ad-hoc time just to look for and clean unrecorded and unmatched cash receipt transactions (DG Treasury, 2009f). Poor controls prior to cash receipt transaction in terms of the data of payer, account receivable, and receipt account made the Treasury deliver more control after the transaction.

because it is not a small amount of money²⁴⁸ in aggregate, so it needs sound cash advance management. Principally the PEM reform has two principles²⁴⁹ concerning cash advance management but in practice to some extent a trade-off exists. The postulate is that the Treasury has to set the balance between flexibility and control in cash advance management. Concerning management, many of the stakeholders (69.5% of the treasury staff, 87.5% of the spending unit managers, and 94.6% of the disbursing finance officer) already felt ‘quite satisfied’ or ‘satisfied’. It indicates that the practices of cash advance were appreciated positively by stakeholders although the Treasury was less satisfied. In this section the management of cash advance in terms of cash holder, amount, and accountability will be elaborated further to find whether it already has matched the expected outcomes.

7.6.1. Disbursing finance officer as cash advance holder

The Law mandates the line minister to appoint a disbursing finance officer at the unit in order to manage cash advance functionally²⁵⁰ (MoF, 2003a), stating the important roles of the disbursing finance officer as cash advance holder not only regarding its appointment but also its position as a functional officer. However, it can be assumed that the changing role of officer historically affected the regulations, emphasizing the roles of the officer as *comptable*²⁵¹ (Appendix 8). Although later the authority of the officer was more limited, the responsibility was similar to previous practice. In addition, even though, after the reform, segregation functions between

²⁴⁸ To illustrate, in the financial report 2008 the balance at the end of budget year was IDR 1,155 billion and in the financial report 2007 the figure was IDR 1,245 billion (SAI, 2009).

²⁴⁹ First, the Treasury tried to reduce the idle money including the money that was kept by finance officers within spending units and second, the Law also mandates the provision of cash advance to support the operational function of line ministries in delivering programs and activities.

²⁵⁰ The Public Treasury Law emphasizes the position of disbursing finance officer as functional position which means that although he/she is appointed by line minister, the supervision, training and other functional matters are under the Treasury (MoF, 2004a).

²⁵¹ The essence of *comptable* function is to account and to account for particularly when applying cash accounting system. Therefore functionally a *comptable* is an appointed person or institution that is responsible to account and be accounted for all transactions.

finance officers were applied, the responsibility of the officer was not diminished²⁵². All this is evidence that previous practices led to the current system, even if sometimes it was difficult to change when poor connectedness with other changes existed. Therefore, it can be inferred that conceptually the position of disbursing finance officer as cash advance holder in the system is still unclear. In the previous system it was relatively clear because financial matters were divided only between manager and finance officer.

Furthermore, although the spirit of reform is to create a functionally-independent disbursing finance officer²⁵³ and to eliminate the intervention²⁵⁴ of the spending unit manager or other operating officers in treasury functions delivered by financial officers; 75% of the disbursing finance officers believed that the intervention had 'slightly increased' or 'very increased' during the last four years, only 6% of the officers felt that it was 'slightly decreased'. In practice some of the officers worked under a commitment officer and some of them under a payment order officer²⁵⁵; which implies that they were staff of these officers. This suggests that the reform did not succeed in enhancing the independence of finance officers within spending units, and the expected internal and managerial controls within spending units were poor; consequently the intervention from spending unit managers remained high. Moreover, as there were various types of spending units with varying scope of activities, the Treasury permits the disbursing finance officer to have the assistance of a cash advance holder²⁵⁶ (DG Treasury, 2005b). Based on the fieldwork data, 71.9% of the disbursing finance officers appointed

²⁵² The regulation still emphasized the role of disbursing finance officer to record all financial transactions instead of cash advance transactions only (MoF, 2008c; DG Treasury, 2009m).

²⁵³ Until mid-2009, the Ministry of Finance has not issued the governmental regulation concerning the functional position of finance officer. The draft has been prepared but some disagreements occurred.

²⁵⁴ The history of changing relations between disbursing finance officer and spending unit manager reflects implicitly the struggle between control and discretion of PEM at operational level (DG Budget, 1999; MoF 1954; 1969; 1984; 200a; 2002b). The independency of the disbursing finance officer created the anxiety of the spending unit manager concerning loss control in budget execution, on the other side the involvement of the spending unit manager in budget execution created the anxiety of intervention.

²⁵⁵ Many spending units put the disbursing finance officer under the payment order officer because the officer usually handled financial matters. Other spending units put disbursing finance officer under commitment officer considering the function of cash advance in supporting the execution of activity.

²⁵⁶ The assistant actually is intended to handle petty cash in terms of more limited money within the unit and usually to support the operational manager in a unit. Even the practices were already applied in the PEM system prior to the reform (MoF, 2002b).

assistants to manage petty cash, indicating the importance of the petty cash holder in the system. Nevertheless, in practice certain problem occurred due to the appointment of petty cash holders, such as the late financial accountability of cash advance²⁵⁷ and the position of the petty cash holder²⁵⁸ in the system. So all this suggests that although the system tries to support cash management in terms of the appointment of cash advance holders and petty cash holders, the balance between control and flexibility is not yet firm. How to support the operational manager without losing control of state money is still the main challenge.

7.6.2. Amount of Cash Advance and Additional Requests

In relation to the principle that no budget allocation is debited without liquidation the function of cash advance as a transitory transaction is emphasized. The money still belongs to the Treasury before the transaction is approved by the Treasury. The policy for setting the amount of a cash advance is relatively similar to the previous system. It is allocated based on the range and percentage of budget allocations for operational activities; the bigger the budget allocation, the more the cash advance²⁵⁹. Interestingly, at the early stages of the reform, the Treasury applied the policy to limit cash advance to IDR 5 millions for each spending unit, in consideration of the effort of the Treasury to minimize idle cash, including cash advances at the spending unit (DG Treasury, 2005a; 2009a); but the policy was applied for less than one year, due to many complaints from spending units²⁶⁰. Another difference is the percentage level of reimbursement. In the system, the utilized part of a cash advance can be reimbursed after 75% of utilization; previously the policy was 90% (MoF, 2004b; 2005a). All this

²⁵⁷ The reimbursement process of cash advance depends on the accountability of petty cash as well.

²⁵⁸ The mechanism of cash advance management does not provide clear arrangements whether a petty cash holder is a finance officer and a subordinate of disbursing finance officer functionally or he/she is only a staff member of operational manager in order to support operating activity structurally.

²⁵⁹ Based on the finance ministerial regulation number 66/2005, cash advance is allocated based on the amount of operational budget. Spending unit, that has operational allocation up to IDR 2 trillion, has the right to get cash advance up to IDR 100 million.

²⁶⁰ Later the system sets the maximal amount of initial cash advance to IDR 200 millions; before the reform, it was set at IDR 250 million (Ritonga, 2009).

confirms that the Treasury tried to reduce the amount of cash advance while providing more flexibility. But it indicates that the system is still looking for a balance between flexibility in supporting the activities of line ministries/spending units and control of monitoring cash advance held by spending units.

Furthermore, the Treasury still approves many requests from spending units to increase their initial cash advance. The Treasury controls the request according to the cascading approval, the urgency of utilization, the limited period of utilization, and the purpose of the additional cash advance²⁶¹ (MoF, 2005a). In practice, in 2009, the disbursing finance officers (64.5%) proposed to increase the amount of initial cash advance. This is supported by the stakeholders (69.5% of the treasury staff, 86.7% of the finance managers, and 72.7% of the spending unit managers) who acknowledged that the trends of change in terms of the number of proposals increased slightly since the reform. Concerning the additional cash advance, the Treasury was unclear whether to reduce or to increase the amount, implying that the Treasury realized there was less flexibility of cash advance. All this suggests that the amount of initial cash advance is not quantitatively adequate, while the Treasury has ruled to control additional cash advance as well. In addition, it can be concluded that the reform in terms of the policy to set the amount of cash advance has not succeeded in reducing the amount of idle cash outside the Treasury. The Treasury still faces a dilemma between reducing idle money, including the amount of money at disbursing finance officers, in order to manage cash efficiently and effectively and supporting the activities of line ministries/spending units in a spirit of reform. Consequently, the balance between control and flexibility in cash advance management has not yet been achieved.

²⁶¹ The additional cash advance just can be used within one month, after the period it has to be transferred back to the Treasury. The approval is divided between the regional treasury office and the treasury service office. The proposal of additional cash advance that is less than IDR 200 million is approved by treasury service office and when the proposal is more than that figure, it is approved by regional treasury office.

7.6.3. Control and Accountability

As presented in Appendix 2, initially a disbursing finance officer was proposed to come under the supervision and responsibility of the line minister only; however the Law states differently, in that. Although the officer is appointed by the line minister, he or she has to send the financial accountability report to the Treasury and the BPK (MoF, 2004a). This means that the disbursing finance officer is controlled by the minister or his proxy through appointment and also by the Treasury and the BPK through function. Although the Treasury has not yet issued the new operational guidelines for cash advance management, except for ministerial regulation until mid-2009²⁶², the majority of the disbursing finance officers were ‘quite satisfied’ or ‘satisfied’ with the responsibility of managing cash advance.

Figure 7.4 Disbursing finance officers



Moreover, although the perceptions of the officers concerning their responsibility, accountability, and independence is relatively equal, the officers considered that their accountability was slightly higher than their responsibility and independency (Table 7.4). This supports the previous finding that the reform maintained the previous accountability but reduced the authority. In general all this suggests that although the flexibility, control, and accountability of disbursing finance officer in managing cash advance were equal, the management of cash advance needs to be regulated further

²⁶² Later at the end of 2009, the Treasury issued the treasury regulation concerning the mechanism of cash advance management and the accountability of disbursing/ receiving finance officer.

through operational guidelines in order to clarify the responsibility, accountability, and independence of the officer.

The disbursing finance officer him or herself is controlled by the spending unit manager in terms of the approval for proposed cash advance, the approval for opening a bank account, the approval for withdrawing cash, the monthly cash inventory, and the monthly reports (MoF, 2008c). The Treasury itself, particularly the treasury service office, controls the disbursing finance officer, since the appointment includes a specimen signature. In addition, the Treasury has a subsidiary account to control cash advance that is kept and utilized by the officer. Each officer regularly sends a monthly financial accountability report to the Treasury (MoF, 2008c). As for petty cash that is managed by the petty cash holder, this is controlled by the disbursing finance officer as a cash advance holder. Consequently the petty cash holder has to send monthly reports to this officer. In addition, the utilization of petty cash is monitored and checked by the commitment officer periodically as well (MoF, 2008c). It is clear that the system has succeeded in setting up appropriate control in terms of *ex-ante* and *ex-post* controls to the cash advance holder and to the petty cash holder, although this confirms that the control is relatively similar to the previous system.

Furthermore, the control by the BPK of the disbursing finance officer is affected by previous practice, even it has been applied since the period of Dutch colonialism²⁶³. However, it is argued that the presenting of the financial report of the disbursing finance officer to the institution is less effective when the authority of the officer is more limited than in previous practice. Even before the reform, the institution rejected the financial accountability reports of some officers, considering there were more than fifteen

²⁶³ At that time the institution belonged to the Crown and had responsibility to control the wealth of the Crown in terms of all assets including cash that was managed by a special *comptable*. The *comptable* held two functions of expenditure management which were payment verification and payment.

thousand officers across the country at that time (Soeriaatmadja, 1986; SAI 2007a), confirming its low effectiveness. But the reform has reemphasized the governance of cash advance in respect of the presentation of an accountability report to the BPK. It supports the previous finding that the reform tends to enhance accountability although its authority is more limited. Based on the discussion above, although the outcomes for cash management have existed since the reform, in some respects there remain problems faced by the Treasury.

The concept of entity in PEM is important because it is related to the recognizing of the point of cash collection and affects the point of cash disbursement. All this is related to the role of financial officers who are responsible for approving cash transactions within an entity. Therefore, this study demonstrates that there is a strong relationship between the concept of an entity and its boundaries, the roles of actors within the entity (such as the role of treasury and cash disbursement/receipt officers), and the time of recognizing financial transactions. Poor boundaries contribute to poor cash management. It suggests that the core function of the treasury, as identified by Allen and Tommasi (2001), Tanberg (2005) and Pattayak and Fainboim (2010), and other advanced changes should be seen in this context, which is the roles of the treasury as prime cash manager in an entity.

Previously, only limited actors were involved in cash management but the reform succeeded in creating many actors in this area. Besides the general treasurer, several actors emerged, including special treasurers/cash disbursing officers, cash advance officers, and banks as treasury agents across the country. However, the general treasurer was the principal in cash management. Consequently, all cash holders, whether within or outside the finance ministry, were under the supervisory of the treasury in terms of qualified officers, bank account management, cash advance, and cash planning.

This study suggests that the segregation of CFO and COO in an entity, as identified by Christensen and Laegreid (2007), does not eliminate the role of the CFO in coordinating and supervising finance officers functionally. Although literature indicates the presence of vertical and horizontal segregations (Jensen, 2003; Wanna *et al.*, 2003), functional coordination or supervision is rarely considered. Hence, this study suggests that cash holders, whether within the finance ministry or line ministry, should be responsible to the treasury unit. The authority to approve cash transactions should be that of the treasury only. Nevertheless, in certain circumstances selected cash holders outside the treasury unit can be given the authority to approve cash transaction but they need to be controlled. The treasury is responsible for deciding who will be given the authority to approve financial transactions. However, the roles of cash disbursing officer were similar as in the previous system although other financial officers were appointed. This means that the reform has not succeeded in creating a new cash management system. This study strengthens the idea that path dependent changes, as identified by Streeck and Thelen (2005), in terms of displacement and layering to existing practices existed in the PEM reform.

Moreover, the huge amount of financial transactions were not controlled separately although overseas funding was supported by a special treasury service office. Discretionary and non-discretionary transactions, to some extent, were considered in cash planning but not controlled comprehensively at the payment stage even though the nature of non-discretionary transaction is unplanned and needs huge amount of money. Therefore, although Hofstede (1981) differentiates between what is controlled and which mechanism to control, this segregation could not be applied fully in the PEM system. This suggests that non-discretionary financial transactions need to be considered deeply when developing cash management system. For example, non-

discretionary transactions can be treated as cash advances that need verification later if they must be disbursed soon. Due to these characteristics, non-discretionary transactions should be verified by an internal or appointed auditor before the transaction are approved by treasury. In addition, the auditors has more expertise and time to verify than do internal staff in the treassury.

This study found that a new approach in the form of managing idle cash professionally needed specific expertise that was beyond the capacity of the Treasury. It raises the question whether the Treasury should handle new roles when the capability is lacking. Again, reform in the public sector, as identified by Allen (2009), should consider the capability of actors including when the actor undertakes reform and when the actor implements the new arrangements. It suggests that the appointment of professional agent to manage tasks that are beyond current actors' capacity makes more sense than handling new tasks internally.

7.7. Summary

Considering the expected outcomes of developing sound professional cash management, this chapter shows that the Treasury, to some extent, has gradually succeeded in applying a treasury single account in terms of managing the treasury account, reducing idle money, and managing cash-mismatch. Operationally the bank accounts for budget execution are more controllable, daily sweeping out of the treasury payment accounts and the treasury receipts accounts across the country is undertaken, the interest revenue from the cash balance of the investment account at the Central Bank is earned, and moreover the interest revenue for the notional pooling of the special treasury accounts is earned as well. Therefore it can be concluded that the outcomes have provided a strong basis for sound cash management at large.

However, the chapter also shows that the implementation of professional cash management needs clear understanding concerning the scope of public money as well, because it is related to the roles of the Treasury in managing cash. But the reform does not, however, yet segregate clearly the scope and the relation between state cash, general or special state cash, and general or special state cash accounts. To some extent it has affected the implementation of the treasury single account in terms of the utilization of GSC account. It has also influenced the roles of disbursing/receiving finance officers whether the officers are treated at arm's length from the Treasury functionally or operationally as treasury agents. Consequently lack of understanding concerning the roles of the Treasury in supporting economic development has made the Treasury tend to be concerned with financial matters and to ignore non-financial matters. In the next chapter, other outcomes of the reform in terms of accounting and reporting will be discussed.

CHAPTER 8

IMPACTS AND OUTCOMES: ACCOUNTING AND REPORTING

8.1. Introduction

The last treasury function that will be explored is accounting and reporting. The main objective of accounting and reporting is to promote the principle of accountability in the PEM. However, besides supporting financial accountability, accounting and reporting are expected to present informative managerial reports, to support the role of SAI in auditing with the cooperation of the internal auditor (MoF, 2002a; 2004e). To reinforce the principle of transparency, the accounting standards are drafted by an independent committee and the accounting system is developed by the Treasury. The reform emphasizes the roles of both the Treasury and line ministries in presenting financial reports. In this regard, the reform proposed the implementation of full accrual accounting as the main approach. As shown in Chapter Five, a linear approach to accounting and reporting could be applied when implementing the contemporary approach, even when an evaluation process was undertaken before developing and applying the next phase of the accounting system. Given the progress made, similar to other treasury functions, questions are raised: whether the new accounting concepts have been applied in the system, whether the progress of the components of PEM process contribute to the outcomes, and whether those outcomes are affected by or affect other treasury functions.

According to the fieldwork data, in general, more than 75% of the stakeholders (78.9% of the treasury staff, 87.5% of the finance managers, and 82.4% of the spending unit managers) already felt 'quite satisfied' or 'satisfied' with the changes in accounting and reporting since the reform. This presents a positive perspective, although it is lower than the satisfaction level in budget execution and cash management as presented in the previous chapters. However, major interviewees outside the Treasury, such as Members of Parliament, the principal auditor of BPK, and some financial managers at ministry level, considered that one of the most successful implementations of the reform was in accounting and reporting, instead of other treasury functions. Interestingly within the Treasury, disagreement existed concerning the concept of accrual accounting in the reform:

... I am not satisfied with the target of accounting and reporting stated by the Law. We will never reach the final destination. But for other treasury functions such as budget execution and cash management, they (the targets) will be accomplished. (Accrual) accounting target cannot be accomplished due to incorrect concepts... (The Reform Initiator – TRS01)

Therefore in view of such questions and the different perspectives mentioned above, although the main indicator that will be measured is based on financial accountability reports, this chapter will present the accounting system first, and then follow it by a discussion concerning financial accountability reports as the main product of the accounting system. Before concluding, the Treasury's effort to apply accrual accounting will also be described.

8.2. Accounting System

To present financial reports, a sound accounting and reporting system has to be developed. However, the resulting accounting system should reflect organizational structure and process, as stated by Horngren (1972 cited in Otley & Berry 1980) and Flamholtz (1983). This presupposes that poor understanding of the nature of an entity

and its organizational process can lead to a poor accounting system. Therefore this section will focus on the roles of related institutions, the function of the entity, and the development of an accounting system.

8.2.1. Roles of Institutions and the Function of the Entity

Table 8.1 The Development of Accounting and Reporting Systems

	Period I (Dutch colonialism)	Period II (1945 – 2004)	Period III (after 2004)
Accounting basis	Cash basis with complementary period	Cash basis	Cash toward accrual basis
Reporting entity	Integrated into the Dutch Kingdom	The state government	The state government and line ministries
Recording	Single-entry and manual system	Single-entry and manual system	Double-entry system and computerized system
Financial Reports	Budget realization	Budget realization	Balance sheet, budget realization, cash flow statement, and notes for the reports
Accounting system	Centralized and hierarchal	Centralized and hierarchal	Decentralized and hierarchal
Accounting entity	General and special <i>Comptables</i>	Treasury service offices & Disbursing finance officers at spending units	Treasury service offices & Accounting unit at spending unit

Source: adapted from Van Gogh (1952); Bijloo (1979); MoF (2005d; 2006a; 2007g; 2008b)

Considering the objectives, accountability and ownership of accounting and reporting as presented in Chapter Three, the role of the Treasury is significant in developing an accounting system. In order to understand this, the discussion focuses on the developments after the reform during, period III but it considers the accounting system before the reform (periods I and II) as well (Table 8.1).

The Law mandates the General State Treasurer to create an accounting system, record all financial transactions and present financial accountability reports (MoF, 2004a), explaining that in accounting and reporting the reform still emphasizes the roles of the Treasury in developing systems and presenting reports centrally; and implying that the roles of the Treasury will not revert to the roles before the reform. During periods I and II it was the main role of the Treasury to develop the system and to present the financial reports in the form of a budget realization report, using single-entry accounting. But since the development of a double-entry computerized accounting

system towards the end of period II, the Treasury has applied decentralization²⁶⁴ in the accounting process (MoF, 2003b). This is still implemented in period III (MoF, 2007h). In periods I and II the roles of line ministries, in terms of finance officers, focused on supporting the Treasury by presenting the supplementary budget realization report within ministries; based on all of the supplementary reports, the Treasury presented the state financial accountability (PAN) reports as a single reporting entity. But, in period III the system has emphasized the roles of line ministries to present financial reports separately, not only budget realization reports, but also balance sheets. It becomes unclear how line ministry is to issue balance sheets individually, considering that the report presents the ownership of assets, liabilities and equities of an entity, while they do not officially belong to the line ministry. On the other hand, the Law also emphasizes the roles of line ministries only as budget users and asset users instead of being the owners of money and other assets. This points out the inconsistency between the role of the Treasury as CFO to present financial reports centrally and the additional responsibilities of line ministries as COOs to record and present financial reports independently²⁶⁵. Thus it can be assumed that lack of consistency occurs between accounting concepts in the Law and practices. To some extent, this reflects the struggle in defining the segregation of roles and functions between CFO and COO, and bringing them from concepts into operational levels.

It suggests that the concept of entity²⁶⁶ has to be clear. In the system, the concept of reporting entity is applied not only to the government but also to each ministry within the government. As noted by a treasury official, several characteristics of a reporting

²⁶⁴ The decentralized accounting process to line ministries is applied in order to enhance the awareness of line ministries and to improve the quality of financial reports.

²⁶⁵ The practices in periods I and II are more consistent with the concept of segregation between CFO and COO in which line minister as COO presents supplementary reports only.

²⁶⁶ The Public Finance Law emphasizes budget allocation at the level of unit organization under ministry; the unit as budgeting entity. The public accounting standards explain a lowest unit that manages budget allocations based on budget document as accounting entity; it means spending unit at operational level as accounting entity (MoF, 2005d).

entity are emphasized, such as that the entity is led by a political appointee, it has independence and authority to manage its resources and it is supported by specific law as well. But the reporting entity²⁶⁷ is an evolving concept. It has been argued that the line ministry is not a reporting entity because those characteristics are not applied fully. Although the Law states the roles of line ministry as budget user and assets user, it does not reflect their independence; the line ministry just manages budget allocations as a part of the state budget. In addition, as noted earlier, all assets belong legally to the state government, instead of to each line ministry. If the assets were to belong to the line ministry, it would contradict the concept of the segregation of functions between CFO and COO; the line minister would then be CEO instead of COO. Moreover, the line ministry, particularly in a presidential system, does not have specific law in terms of independent budget law, or independent budget management as applied to the Central Bank. Independent budget law means that the parliament discusses and approves the budget of each institution separately²⁶⁸; specific law authorizes the independence of resources, management, and accountability. Furthermore, concerning the political appointee, this is a less supportive argument as well; in a presidential system ministers are accountable to the president, although they are political appointees, meaning that although the idea of reporting entity can be applied, the reports are sent to the president instead of parliament and the audit order is from the president as principal. All this indicates that the appointment of a line ministry as a reporting entity does not relate to the approval of budget allocations by parliament and independency but to the position

²⁶⁷ Internationally, the issue concerning reporting entity in the public sector is not yet fixed, even Australia as the patron of the PEM reform, after a decade, still considered and adjusted the definition of reporting entity in the public sector due to being not well applied in practice (IASB, 2010; AASB, 1990; 2009; Challen & Jeffery, 2005; Walker, 2007). Moreover, Barton (1999) argues that the practice of reporting entity in the private sector is not identical to the public sectors particularly in terms of the users of financial reports. It makes the implementation of reporting entity adjusted into each country's necessities (Benito *et al.*, 2007).

²⁶⁸ In period II historically in 1950 Indonesia applied this practice during parliamentary system in which each line ministry had separate annual budget law (Bijlo, 1979). It informs that reporting entity in terms of separated budget approval is influenced by the political system.

of the minister as a political appointee. Therefore it follows that a line ministry is not an independent entity.

In general, although the roles of the Treasury are still dominant in accounting and reporting, the reform empowers the line ministries, particularly in utilizing the accounting system and presenting the financial reports. However, poor consistencies exist in terms of the implementation of the reporting entity concept. Considering that the clear segregation of roles is the objective of the reform, this presumes that poor segregation contributes to frequent changes of the accounting system.

8.2.2. Development of the Accounting System

Based on the roles above, in practice the Treasury developed accounting systems that were supported by the development of a chart of accounts, posting rules, and computerized application system. As Hashim and Allan (2001) point out, these elements are essential in developing a sound treasury system at large. Referring to the accounting system after the reform, one of the stakeholders commented that the system of financial accounting and reporting has achieved 90% of its target, because the system of asset accounting and reporting needs further refinement. This means that the perspective of stakeholders was positive to the accounting system. To explore it further, the development of the system in terms of double-entry accounting, charts of accounts, accounting process, and a computerized application system follows.

Financial transactions are recorded by using double-entry accounting²⁶⁹. It is applied to eliminate the shortcomings that were experienced in period I, such as lack of control of transactions and balances of each account. As a result, since 2004 the Treasury has presented the balance sheets and other financial reports. It is evident that

²⁶⁹ It is to present reports particularly balance sheets that show the balance between assets, liabilities, and equities of entity (Campo & Tommasi, 1999; Torres, 2004). Although Annessi-pessina *et al.* (2008) argue that single-entry bookkeeping can also present these reports, it needs many adjustments at year-end.

the accounting system has succeeded in providing more informative financial reports. However, in the system although major transactions are already posted by double-entry accounting, in cash advance management single-entry accounting is still applied (MoF, 2008c). In addition, in practice other transactions such as investment and debt transactions have not yet been integrated. It shows that double-entry accounting has supported the accounting system. Nevertheless, it suggests that the Treasury still has poor control on cash advance and non-discretionary budget transactions.

Moreover, not only double-entry accounting but also the chart of accounts is significant because it represents accounts that are used to record all transactions including contra accounts for double-entry accounting. The chart of accounts is used then to develop a computerized accounting system. In the system, besides reflected budget classifications and functional classifications, the chart of accounts also accommodates economic classifications²⁷⁰ in terms of the segregation of accounts for assets, liabilities, equities, revenues, expenditures, transfer payments, financing transactions, and non-budgetary transactions (MoF, 2003b). This suggests that the reform has succeeded in adopting one of the international best practices, the government finance statistics (GFS) manual issued by the IMF in 2001. However, the reform was late²⁷¹ in developing the accounting system for non-discretionary transactions as implied by the statement of this official:

...we never made the (State Treasurer) reports. Although the Law does not state explicitly there are the State Treasurer's reports, it notes the responsibility of the Treasurer in managing investment and debt...so we think that the accounting of the budget allocations for non-discretionary transactions has to be developed as well... (The Director of Accounting and Reporting – TRS07)

²⁷⁰ Although some references such as Jacobs *et al.*, 2008 recommend economic classifications to be independent from other budget classifications such as administrative classifications but in the reform, in order to maintain certain control, economic classifications are connected to organizational or administrative classifications.

²⁷¹ Later in 2007 the Treasury set several specific accounts representing unit organization under the Ministry of Finance such as debt management, investment management, interregional transfer payment, and other specific payments.

This supports the previous finding that, particularly at the early stage of period III, the Treasury focused more on accounting for discretionary transactions that are managed by line ministries, usually due to their minor priority at that period or due to poor understanding of the scope of public money and the roles of the CFO. Moreover, the chart can support flexibility in terms of the level of classification and the purpose of levelling. In the system, the Treasury issues not only general accounts but also the details of accounts as a subsidiary to the general accounts²⁷². However in practice, even for accountability purposes, the accounting system used the details of accounts as financial data. It got worse through putting the details of accounts in the annual budget, particularly the accounts for tax revenues (MoF, 2006b; 2008e; 2009e). Consequently the financial accountability reports had to be presented to a similar level of detail as the annual budget. All this suggests that the chart of accounts has been developed in the accounting system but that it has not supported the segregation of roles between CFO and COO, the separation of functions between non-discretionary and discretionary accounts, and the decoupling objectives between financial accountability and managerial reports. In addition, it can be inferred that, even within the Treasury, the Law does not provide clear information concerning all these segregations.

To present the financial reports, the sequential process of accounting has to be developed as well, from the point of transactions, source documents, journal entries and then posting to the accounts. In the system, all this has been done with the support of the computerized application system. Because, in period III, the system still applied a cash basis, the point for recognizing transactions is related to the flow of money coming into and going from the GSC account at the Central Bank. However, the point of transaction

²⁷² The chart of accounts is set into 6 digits which mean that the first four digits are used to present the general accounts such as buildings under assets, value added tax revenues under revenues, or travel expense under expenses and the last two digits are used to present the subsidiary of general accounts as further explanation (MoF, 2007g). It indicates that the chart already supported the function for accountability in terms of the first 4 digits and the function for managerial purposes in terms of the last 2 digits.

is still the persistent audit finding; for instance, when unmatched financial data between the Treasury and the debt unit occurred²⁷³ (SAI, 2009). This indicates that the accounting system, in terms of the point of transaction, is not determined clearly even though it applies cash basis accounting. Moreover, formally, all recorded transactions have to be based on source documents; so that the information within the document supports the presentation of accounting and reporting. In the system, the approved payment orders²⁷⁴ on the expenditure side and the approved receipt vouchers²⁷⁵ on the revenue side are mainly used, although the Treasury itself issued other documents, such as the cheques to operational banks. It is evident that although the system is applying a cash basis, it does not record the point of cash payment fully²⁷⁶ but just the point of payment approval; it is relatively similar to the practices in period II, where the transactions were recognized on the basis of approval by the Treasury.

Furthermore, the posting rules²⁷⁷ are developed but some parties complained that too many refinements²⁷⁸ to posting rules affected the implementation. This would not be problematic if it could be adjusted smoothly, but in some cases it made the application system not work well. This supports the connection between rules and the application system. As for the accounting application system, due to its user-friendliness the implementation of the computerized system within the line ministry succeeded in practice. In the next phase of development of the computerized accounting system, as part of the IFMIS project, commitment accounting will be added, although some treasury officials are dubious about this plan. It can be inferred that the strategy to apply

²⁷³ To illustrate, poor coordination occurred within the Treasury when on one side the public accounting standards and accounting regulations already strengthened the function of GSC account at the Central Bank as the main point of recognizing transaction but on other side cash management still let operational banks keep floating money for several days before it was transferred into the GSC account (DG Treasury, 2008b; 2008f; 2010c). Consequently the financial accountability reports presented unreliable information due to untimely record of transactions.

²⁷⁴ Approved payment order is the document that is prepared by a spending unit but then is approved by the Treasury.

²⁷⁵ Approved receipt voucher is the document that is prepared by tax or non-tax payer but then is approved by the Treasury.

²⁷⁶ The Treasury argued that the information in the cheque used a net basis instead of a gross basis.

²⁷⁷ The rules are important to support the transactions into financial reports.

²⁷⁸ It occurred because the frequent update of posting rules contributed to not only the adjusted rules themselves but also the adjusted computerized application system.

accrual accounting to the application system is not yet clear. All this suggests that the accounting system has accommodated transactions, source documents, recording and posting, and the application system, even though certain transactions have not been covered and ruled upon. In addition, the point of recognizing a transaction is still vague, affecting the utilization of source documents and consequently influencing the quality of the reports.

8.3. Financial Accountability Reports

The prime outcome for accounting and reporting is the financial report, particularly the financial accountability reports that have to be presented by government to parliament (Premchand, 1983; Parker; 1996; Stapenhurst, 2004). As an outcome of the accounting system, since 2004 the Treasury has presented the state financial accountability reports, covering balance sheets, the budget realization report, and the cash flow statement to parliament, as mandated by the Law. It is relatively easy to measure the quality of the reports as a final product by seeing the audit reports of the external auditor but this section will focus not only on audit findings and recommendations but also on the hierarchical process of accounting and reporting itself. Concerning the outcomes, one of the treasury officials stated:

...so if we see the progress in terms of the quality of line ministry's financial reports year by year, the progress is getting better. In 2006, the ministries that get unqualified opinion were only 7. In 2007, there were 16 ministries. Now in the reports 2008, there are 32 ministries. It is quite surprising because our target are only 25 ministries... (The Director of Accounting and Reporting – TRS07)

This presupposes that the function of accounting and reporting has already produced positive results. Further discussion will be presented below.

8.3.1. The Quality of Financial Accountability Reports

Success of financial reports indicates that they have fulfilled the objectives of the reports. Therefore the quality of financial reports will be explored, to see whether the reports are comprehensive in terms of recording all financial transactions within the entity, valid in terms of using formal source documents, reliable in terms of applying sound process from source documents to reports, timely in terms of presenting on schedule, and informative in terms of supporting users in making decision, as stated by Challen and Jeffery (2005). Concerning comprehensiveness, 88% of the treasury staff were satisfied with the comprehensiveness of the state financial accountability reports; relatively similar to their perspectives concerning the overall outcomes for accounting and reporting.

Figure 8.1 Validity of financial reports

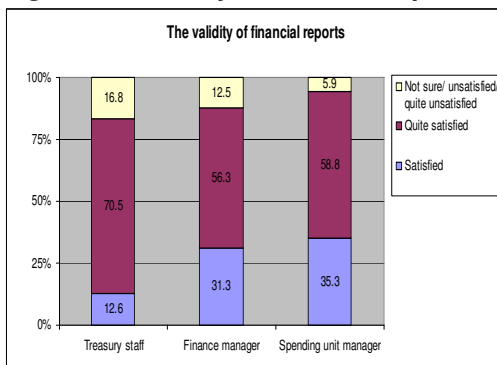


Figure 8.2 Reliability of financial reports

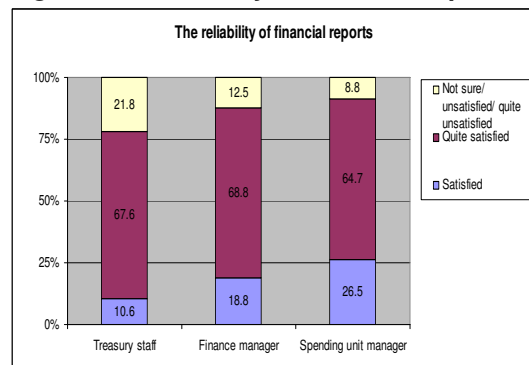


Figure 8.3 Timeliness of financial reports

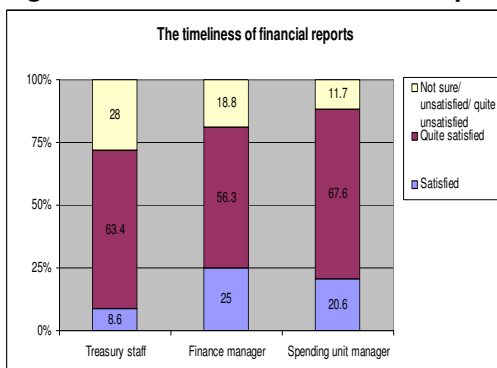
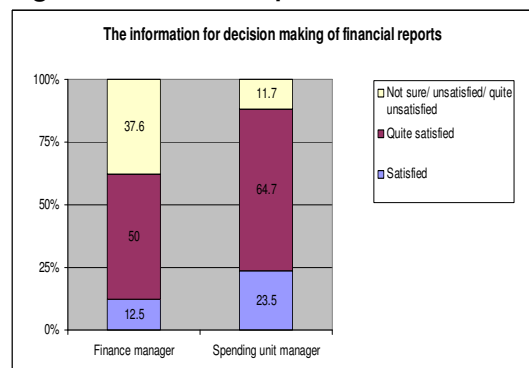


Figure 8.4 Financial reports – decision making



As shown on Figures 8.1 to 8.4, more than 80% of the stakeholders were ‘quite satisfied’ or ‘satisfied’ with the quality of financial accountability reports of line

ministries in terms of validity, reliability, timeliness, and information for decision making except for the perspective of the treasury staff on its reliability (77.5%) and timeliness (72%). Although the proportions of validity and reliability are relatively similar between groups, the level of satisfaction is higher for validity than for reliability. In addition, it is implied that the satisfaction level of the treasury staff was lower than that of the finance managers and spending unit managers. This is consistent with the previous finding concerning lower satisfaction of internal treasury than of outside parties. It can be inferred that internally the Treasury considered that although the reports were presented using valid documents, they felt that not all transactions were covered and recorded, the utilization of source documents in the form of approved payment orders was not yet clear or the reconciliation process was not delivered well; to some degree it made the reports less reliable. But within the line ministry, the spending unit managers were more satisfied with their reports than the financial managers at ministerial level; this is related to the responsibility of finance managers to compile all reports at a centre. So all this shows that generally the financial reports have given good results in terms of validity and reliability since the reform.

Timeliness remains the aspect bringing the lowest satisfaction. Although in general the timeliness of the reports achieved significant accomplishment compared with previous practices, the stakeholders felt less satisfied with the timeliness of hierarchical reports. In aggregate since 2006 the financial accountability reports have been presented six months after the end of budget year as mandated by the Law; many parties acknowledged that it was a significant result compared with the practice in period II. But the timeliness was supported by financial reports from the Treasury instead of line ministries. Therefore it can be inferred that at operational level spending units still struggle to present the reports on time, particularly to support a hierarchical

accounting process. This affects the roles of the line ministry in compiling all reports from operational level.

Concerning the quality of the reports, in terms of providing information for decision making, the perspective of internal line ministries is relatively similar to their perspectives about timeliness, but the finance managers had lower satisfaction. At least to some extent, this signifies that the reports were less useful to support spending unit managers in decision making. Moreover, the perspective of internal line ministries is getting lower when they were asked about the utilization of information in evaluating and preparing the next budget proposal, only 56.3% of the financial managers and 76.5% of the spending unit managers used these reports as information at the phase of budget preparation. This view is supported by the financial managers, who considered that the accounting system emphasized the accountability reports and forced them to develop an internal reporting system in order to support managerial information. Therefore it suggests that the outcomes of the financial reports in terms of providing information for decision making have not been achieved as expected. This supports the previous finding that the system still lacks segregation between the reports for managerial and accountability purposes.

8.3.2. Hierarchical Process of Financial Accountability Reports

Since the reform, the financial reports have been produced from the computerized accounting system that is applied across the country. As noted earlier, the system applies a decentralization process, which means that financial transactions are recorded by both spending units and treasury service offices at operational level. This section will present the hierarchical process from operational level with respect to the spending unit's financial reports to central level, in terms of audited financial reports

particularly as *ex-post* control/audit²⁷⁹ (Table 8.2 below). This will emphasize the roles of the Treasury and line ministries in a cascading accounting process including the reconciliation of financial data. Moreover, it will explore the functions of additional controls, such as financial review and statement of responsibility, applied after the reform.

Table 8.2 Ex-ante and ex-post control on accounting and reporting

<i>Ex-ante</i> control	<i>Ex-post</i> control/audit
Public sector accounting standards	Reconciliation
Chart of accounts and Posting rules	Financial review by internal auditor
Budget classifications (organizational, functional, program, economic)	Statement of responsibility by executive officer
	Financial audit by external auditor

Source: Adapted from MoF regulations

Reconciliation process between the Treasury and line ministries at operational level

Before evaluating the effectiveness of the reconciliation process, the quality of reports in terms of reliability of unreconciled financial reports from spending units is explored; the majority of the treasury officials and staff saw that the unreconciled reports presented by spending units were ‘fair’ to ‘good’ (Figure 8.5 below). It is relatively similar to the perspectives of line ministries concerning their financial reports.

Figure 8.5 Unreconciled financial reports

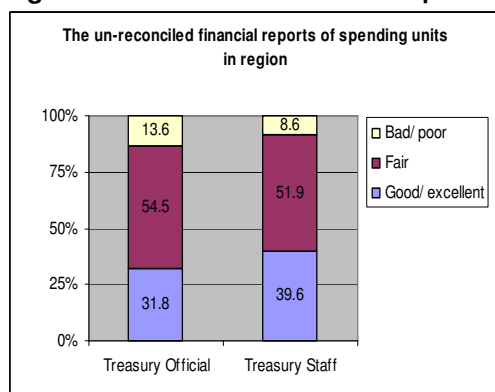
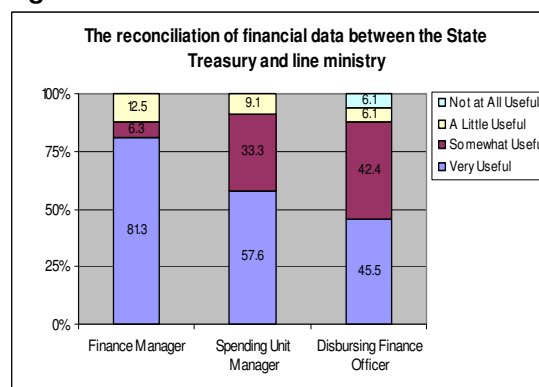


Figure 8.6 Reconciliation of financial data



²⁷⁹ In addition, to support the timeliness of financial reports, the Treasury also set the schedule of financial reporting whether at operational level, regional level, and national level including the time to send to the BPK and the parliament. The government has to send all financial accountability reports to the BPK within 3 months after the end of budget year (MoF, 2003a; 2007h).

After the reform, the Treasury has emphasized the importance of the monthly reconciliation process²⁸⁰ between the Treasury and spending units, considering that although both institutions use similar source documents, frequent differences occurred (MoF, 2006a; DG Treasury, 2006c). However in practice, some spending units did not conduct the process of reconciliation; the Treasury report states that the participation level of spending units in the reconciliation process varies from 32.72% to 100% but on average it is still good (84.17%) (DG Treasury, 2009g). Interestingly, even in Jakarta, as the capital city, the participation level of spending units is low; it is only 63.32% which is lower than the national average level of participation. So this indicates that the understanding of the importance of the reconciliation process whether within the Treasury or line ministries is still erratic. Nevertheless, more than 85% of the stakeholders believed that the reconciliation process of financial data between treasury service unit and spending unit was ‘somewhat useful’ to ‘very useful’ (Figure 8.6). Although it presents positive results, the perspective of the finance managers is better than that of both the spending unit managers and the disbursing finance officers concerning the usefulness of the reconciliation process. Later, since 2008, in order to enhance the reconciliation process, a sanction on spending units²⁸¹ for undelivered financial reports to the Treasury has been applied (DG Treasury, 2008a). The policy is also supported by finance managers at ministerial level; it supports the previous finding concerning the role of financial manager in integrating all financial reports from spending units across the country. Therefore it can be concluded that the reconciliation process has been strengthened and improved after the reform, although some spending units have not yet obeyed and to some degree, this has influenced the quality of financial accountability reports.

²⁸⁰ Monthly after spending unit presented its financial reports, the first week after the respective month treasury service office and spending unit conducted data reconciliation (MoF, 2007b).

²⁸¹ The sanction is imposed by postponing the approval of payment order.

Reconciliation process between the Treasury and operational banks at operational level

Besides the reconciliation between the Treasury and line ministry at operational level, after the reform the Treasury has realized the importance of other *ex-post* control measures, in terms of the reconciliation process of financial data between the Treasury and operational banks. In practice, many parties considered that the reconciliation between the Treasury and the banks was poor, which contributed to the poor quality of financial accountability reports in general and cash flow statements in particular. Due to poor reconciliation, the Treasury, as a consequence had to handle much data unmatched between the record from operational banks and the record from the Treasury. Later, in 2009, the Treasury emphasized this type of reconciliation as internal reconciliation²⁸². Actually in period II, this reconciliation was applied manually although the double-entry accounting system had not yet been applied. Besides internal reconciliation, the Treasury requires that the financial reports from treasury service offices to a higher level has to be supported by the list of the bank accounts within the region, the reconciliation report between treasury service office and spending units, the cash position report, and the reconciliation report between bank reports and subsidiary bank accounts. Therefore it can be inferred that the accuracy of financial data between the Treasury and operational bank has improved since the implementation of the reconciliation process, even though at the early stage of the reform it was not prioritized. This suggests that all this supports the outcomes for accounting and reporting.

²⁸² It is applied because the data from the banks is kept by subunits within treasury service office and the data of approved transactions is kept by other subunits (DG Treasury, 2009i).

Reconciliation process between the Treasury and line ministries at regional level

Given the hierarchical process of financial reports, at the next level are the roles of higher officials at regional level, whether at the Treasury or at line ministries, to reconcile the financial reports within the region²⁸³. In practice, the Treasury has acknowledged that the cascading consolidation of financial accountability reports from operational level to regional level was effective in supporting the accuracy of the state financial accountability report: 88.7% of the staff were ‘quite satisfied’ or ‘satisfied’ with the quality of financial accountability reports in terms of validity, reliability and timeliness at regional level. However, some officers also found that it could become a weak link, because sometimes regional treasury offices did not update the financial accountability reports at regional level after receiving the updated reports from treasury service offices. Therefore cascading controls to present the financial accountability reports has presented good results although it has been suggested that it needs to be imposed more at operational level rather than at regional level.

Financial review and statement of responsibility

The Public Treasury Law mandates the government to develop sound internal control. Given this, in 2008 a governmental regulation concerning internal control was issued, emphasizing that the role of internal auditor within the line ministry is to review²⁸⁴ the financial reports of the ministry before they are sent to the Treasury (MoF, 2008b). The system requires the internal auditor to issue a review statement²⁸⁵. However, this points to impractical and superficial control, because in practice the line ministry has limited time, only two months after the end of budget year, to prepare the reports and to be reviewed by the internal auditor. Consequently, duplication in terms of

²⁸³ In the system, it is the responsibility of regional treasury office and regional line ministry office.

²⁸⁴ Reviews mean that the internal auditor has to present certain assurance of accounting system. It is different from financial audit that presents more assurance of the accounting information (MoF, 2008b).

²⁸⁵ The review states that the reports are consistent with the public accounting standards and other related regulations.

time and function happened between the review by internal auditor and the financial audit by external auditor. Moreover, the statement that the review is consistent with accounting standards is meaningless, because line ministries did not apply the standards and develop the accounting system themselves; they just utilized the accounting system that was developed by the Treasury, strengthening the previous proposition that the line ministry is not an independent entity. So the financial review as one of *ex-post* controls is already applied but it has not achieved the expected results due to poor timing and lack of understanding of the reporting entity. It suggests that the financial review can be applied at all times, particularly when other parties need certain assurance in the reports.

Furthermore, since 2003 the Treasury has ordered the line ministry to issue a statement of responsibility certifying that the line minister complies with public accounting standards and related regulations, explaining that the statement has been implemented even before the Treasury applied the financial review. However, like the review as *ex-post* control, line ministries do not set the accounting policy and accounting system by themselves, even though a decentralization system exists. In practice some ministers were reluctant to sign the statements, although later the pressure was reduced by applying the financial review before the ministers signed the statements. It can be deduced, therefore, that although the statement of responsibility is sound practice, it has to relate to the independence of the reporting entity and needs to be assured by the roles of internal auditor as well.

Moreover in the system, after the line ministry submits the audited financial reports to the Treasury, the Treasury compiles all reports into the state financial accountability reports. At this point, the system sets up a tripartite meeting of the line ministry, the BPK, and the Treasury, to discuss the audit findings. In practice, some audit findings were eliminated but others were not; some were explained in the notes for

the reports but others were not. In addition, sometimes different opinions were held by the Treasury and the BPK concerning public accounting standards and their implementation. It can be inferred that some standards are still unclear and open to multiple interpretation. In general, all this shows that although the quality of the reports is enhanced by the discussion about audit findings among related parties, internal control in terms of the reviews and the statement of responsibility have not produced the expected outcomes.

Financial audit and follow-up findings and recommendations

As for the financial accountability reports, although the Law mandated the Treasury to present the reports for budget year 2006, the Treasury had presented the reports since 2004, considering that the accounting system was already developed. The Treasury itself realized that, in the early years of presentation, the quality of the reports would be below expectations and acknowledged that a disclaimer opinion was probably needed, as noted by the Reform Initiator:

...concerning the BPK's opinion, it is a new practice after the Law was issued and we have to be realistic...the infrastructure should be developed first before giving opinion...the accounting standards and auditing standards were just issued, it means that we are still learning... (The Reform Initiator – TRS01)

Implicitly it shows the strategy of the Treasury in improving the audit opinion. Although the opinion for the state financial reports included disclaimers for years, the audit opinion of the line ministry's financial reports got better, as acknowledged by all of the stakeholders. As a result, the unqualified opinion of line ministries increased from seven ministries in 2006, 16 ministries in 2007, to 32 ministries in 2008. All this confirms positive results, although it can be inferred that it took time to improve the quality of the reports at big ministries that have many spending units at operational level, manage a huge amount of budget allocations, and deliver de-concentration and task assistance activities. Furthermore, the number of BPK's audit findings reduced

gradually year by year; in 2006 there were 34 audit findings, in 2007 there were 34 findings, and in 2008 it became 26 findings (SAI 2007b; 2008; 2009). It reflects that the audit findings and recommendations were followed-up by related parties. However, there are some persistent problems, such as the differences in revenue data between the tax unit and the Treasury and the differences in cash balance between the reports and its physical inventory; other problems are the accounting for oil revenues, particularly in reconciling transactions and measurements, the accounting for debt management, particularly in recognizing transactions and measurements, and poor assets revaluation and records (SAI, 2009). This indicates that, as noted earlier, the Treasury is still struggling to define the point of transaction as recognizing transactions, although a cash basis is applied. In general, it suggests that the quality of financial accountability reports in terms of an increasing number of qualified opinions increased gradually after the reform. But, given the persistent audit findings, it strengthens the previous proposition that the Treasury still has poor control on non-discretionary transactions even though almost all transactions are made under the control of the Ministry of Finance.

8.4. Implementation of Accrual Accounting

One of the new approaches in the PEM reform is the implementation of accrual accounting. Although it is mandated by the Law, it could not be applied by 2008, as targeted. Considering the results, this section will elaborate the accrual basis, in terms of the understanding of stakeholders, the time schedule, the readiness of stakeholders, and the efforts that have been made by the Treasury so far.

8.4.1. Understanding and readiness of stakeholders

The understanding of accrual accounting in the reform will be discussed first, considering the Treasury itself where pessimism emerged; interestingly it came from one of the reform initiators. It can be assumed that it is more difficult to implement

accrual accounting when there are different perspectives among the stakeholders. To some extent, the different perspectives reflected resistance to the accrual accounting concept as is found among scholars; accrual accounting is a significant practice in the private sector. In addition, it implies that the reformers themselves did not receive much information on best practices when enacting the new Law and initiating the contemporary approach; the Treasury just saw that it was applied by some developed countries and theoretically provided more informative data. The effectiveness of accrual accounting in the public sector still remains questionable, however, as stated by an official:

...Definitely Australia becomes one of the best countries in fiscal management within the OECD countries. Now they told us not to follow (their reform) due to the imbalance between costs and benefits...the standing point of OECD is cash towards accrual accounting internationally... (The Director of Accounting and Reporting – TRS07)

Notwithstanding such pessimistic perspectives, in contrast, many external parties believed that accrual accounting can be applied in the public sector. To some extent, it illustrates that the Treasury succeeded in increasing the awareness of external parties more than internal parties:

...we in parliament believe that accrual accounting can be implemented...we can see in corporate...I think the problem is only severe institutional problem. It is the issue in government, (it is) not the issue within the Ministry of Finance solely. So it will depend on the political will of RI-1 (the president)... (The Member of Parliament, accountant – MP01)

...yes we can (implement accrual accounting), it is still homework. However if it is implemented now, the line ministries currently receiving the unqualified opinion will get lower opinion... (The Principal Auditor of the BPK, accountant – SAI01)

So the concept of accrual accounting itself is supported by main stakeholders such as the Members of Parliament and the BPK, providing a basic foundation for further implementation. However, this was because those stakeholders, that Member of Parliament and the Principal Auditor, have an accounting background. In addition, they are the primary beneficiaries of financial reports. From the perspectives of other

stakeholders within line ministries, although they did not oppose the concept of accrual accounting, were more sceptical concerning its implementation:

...I just hear that (accrual accounting). For me the important thing is training or preparation of human resources and good appreciation (in terms of remuneration) for officers; we will be ready... (The Finance Manager at ministry level – FM02)

...we also have not understood the concept of accrual accounting...because of the Law, we have an obligation to implement that. I do not know when (it is implemented) it is a big question...in the current system we are still struggling...the road map is not clear yet... (The Finance Manager at ministry level – FM03)

It is obvious that in the reform, line ministries are just followers and users, which means that their attitude to change is passive but they still need adequate information concerning the change itself, such as purpose, time schedule, training skill. Concerning the readiness of related institutions in terms of the Treasury and line ministries, although the treasury staff (82.4%) believed that the Treasury was ready to apply accrual accounting they (60.1%) acknowledged that line ministries/spending units were not. At least this says that the readiness of the Treasury and line ministries can be enhanced. In general it demonstrates that the understanding among stakeholders concerning accrual accounting varies, suggesting that further explanation is needed on how accrual accounting can be applied in the public sector. This presumes that the success of accrual accounting needs common understanding from all internal and external stakeholders, particularly among reform initiators or policy makers themselves.

8.4.2. Adjusted target and efforts

To apply contemporary approaches such as accrual accounting, one should consider the specific contexts; poor consideration of country's circumstances contributes to difficult implementation and leads to an adjusted plan. In practice, the Treasury adjusted the target to apply accrual accounting. The treasury officials stated that the implementation of accrual accounting was postponed until 2015, reflecting that

the Treasury considered the existing circumstances in period III as well as the progress of the quality of financial reports; there were many disclaimer opinions for the audited financial reports of line ministries. Moreover, the Treasury considered the implementation not only at the state level but also at local government level as reporting entities; poorly equipped human resource departments were a major obstacle. This confirms that reform is a process in which the target can be adjusted depending on the progress of implementation. This suggests that the implementation of accrual accounting needs sound planning and evaluation; it is also clear that it takes more than five years as an initial target.

In order to achieve the adjusted target, the Treasury has made some efforts toward including it in the draft of public accrual accounting standards and regulations. The accrual accounting standards was already drafted, although it was not issued by mid-2009. Legally the Treasury faced a problem that it is not allowed to impose two types of standards in the form of governmental regulations concurrently, that is one for cash accounting and another for accrual accounting. As discussed in Chapter Five, this affected the lower level regulations including the chart of accounts, the posting rules, and the accounting system. Non-issuance of regulations and less readiness of stakeholders are the main reasons why accrual accounting could not be applied. But since 2008, the Treasury has tried to apply accrual accounting at the end of the budget year in the form of the adjustment of some accounts from a cash basis to an accrual basis, particularly to measure accrued expenses and accrued revenues (MoF, 2008g; DG Treasury, 2009j). In addition, as noted earlier, the computerized accrual accounting is included as one of the modules in the integrated financial management information system (IFMIS) project being developed since 2004. One of the regional treasury officials believed that accrual accounting can be implemented by applying a user-

friendly accounting system and training human resources, like the implementation of a cash accounting system. All this shows that the stakeholders are optimistic that an accrual accounting system can be applied by initially preparing accounting standards, regulations, and applications, although the Treasury realizes the difficulties in applying this in the public sector.

Similar to cash management, the concept of entity influences accounting system particularly concerning the recognition of financial transactions between entities. When the time of financial transactions is recognized and measured, it affects the transfer of the ownership of assets between entities. This study supports that the stewardship of assets, as identified by Premchand (1993), is the essence of accounting which should be prioritized. Therefore, the dichotomy between cash-based and accrual-based accounting (Carlin, 2005; Ouda, 2003; Paulson, 2006) essentially reflects that the different time in recognizing the shifting of asset should be seen in this context that the determination of whichever accounting basis is related to the capability of actors within an entity, particularly the treasury, to control the point of recognizing the transactions. To illustrate, financial transactions were recorded by both the finance ministry and line ministry. This policy was adopted in order to increase the quality of financial reports and the ownership of line ministries. In addition, within line ministries, accounting officers or units were segregated from central, regional, and operational levels. Moreover, at the operational level in spending units, there was an accounting officer who recorded transactions using double-entry accounting and a cash disbursing officer who used single-entry accounting. This is consistent with Dekker's (2004) opinion that there should be continuity in the flow of control between units as a system. However, rather than recording different time and document, the finance ministry and line ministry recorded similar source document, even though this practice did not guarantee

qualified financial reports. This study suggests that although the segregation of functions between actors creates a check and balance mechanism, double control can occur when the sequence of the flow of control is not considered. The accounting system and its control arrangements are the responsibility of the CFO within an entity although the implementation of accrual-based accounting should consider the capability of financial officers at the spending unit.

Similar to other treasury functions, the different characteristics of financial transactions have not been considered deeply in accounting and reporting. As shown earlier, although the concept of cash advance was applied as the treatment of unverified financial transactions, it was not applied fully to all transactions that had similar characteristics. This suggests that certain transactions need different sequential payment processes, particularly in terms of verification and measurement, as acknowledged by Evans III *et al.* (1986) and Whitley (1999). This study suggests that the treatment of unverified payments as cash advances is a better practice than they are treated as real expenditures. Hence, the functions of the treasury, as identified by Allen and Tommasi (2001), are not adequate if the functions focus only on controlling the release of fund or maintaining cash-flow effectively and efficiently; they need to strengthen the role of the treasury in verifying and approving transactions. Moreover, the progress of accounting and reporting affects other treasury functions; for example, the connectedness between managerial reports and budget execution or between the chart of account and budget preparation, or between cash flow report and cash management. All this confirms the importance of considering the connectedness between functions in reform.

In terms of change management, different from other treasury functions, the reform in accounting and reporting has a clear main strategy of movement from cash-based accounting towards accrual-based accounting. Moreover, implementation

emphasizes the development capacity of the line ministry through intensive training programs within both the treasury and line ministries. The success of the implementation of accounting was supported by a clear grand design and strategy and the capacity of actors, as identified by Beitenhader and Bergmann (2010). However, accounting for non-discretionary financial transactions has not received adequate attention until recently. Again, it shows that the management of discretionary transactions was more prioritized than non-discretionary transaction, as identified by Allen (2009). It also shows that the segregation between discretionary and non-discretionary financial transactions is related mainly to the capability of the treasury to control and the specific nature of transactions. Therefore, there is a need for more understanding of the nature of financial transactions, which will eventually help the treasury to develop a comprehensive and robust accounting system.

8.5. Summary

This chapter shows that in accounting and reporting, the process in terms of the regulations, training programs, and applications was delivered well and contributed positively to the outcomes in terms of the quality of the financial accountability reports. In general, the success of the implementation of accounting and reporting is helped by several factors, such as the political will and the involvement of high level officials within and outside the Treasury, the development of accounting regulations and applications, the continuous training program, and the active roles of the external auditor.

However, in terms of the objectives, the accounting system still focuses on presenting the reports in terms of financial accountability and fails to support managerial decisions. Moreover, due to more complicated non-discretionary transactions, in the early years of the reform the Treasury focused on the accounting

system for discretionary transactions as common transactions within the line ministries. As a consequence, the accounting system for non-discretionary transactions was less developed and frequent adjustments were needed. Interestingly, although since the reform the utilization of a computerized system was massive, the Treasury did not apply a centralized accounting system any more. The decentralization in terms of the responsibility of spending units to entry data has been implemented, even though they record similar source documents to the Treasury; double accounting exists between accounting units and disbursing finance officers within the spending units in the system. The reform was to emphasize the ownership of the line ministries in accounting and reporting, but the concept of reporting entity is still vague. In addition, like other treasury functions, not all practices have been changed. This confirms that the Treasury still struggles to segregate the roles of CFO and COO and to segregate accountability between responsible parties in the accounting and reporting system.

This chapter concludes that the roles of institutions, particularly the Treasury, the function of reporting entity, the point of recognition of transactions, and the nature of discretionary and non-discretionary transactions contribute to the outcomes for accounting and reporting in terms of the development of accounting system. Lack of understanding of these concepts has affected the frequent changes to the system. In view of the outcomes of accounting and reporting, the following chapter will discuss whether these achievements are comparatively better than the outcomes of other treasury functions.

CHAPTER 9

RELATIONSHIP BETWEEN THE PROCESS AND THE OUTCOMES OF THE PEM

9.1. Introduction

In the previous chapters the implementation of various elements of the PEM reform and the outcomes of treasury functions were discussed separately. Some of the discussions identified connections between the process and the outcomes. In this chapter quantitative analysis will be used to further explore these links. It answers some questions, particularly whether or not there is a positive and significant relationship between the process and the outcomes, and whether all stakeholders share similar perspectives. It also identifies the treasury function that has had positive effects, why different perspectives occur, which component of the process contributes most to the outcomes, the main problems in the process, and strategies that might be applied for the future.

To answer these questions the chapter is divided into four sections. Firstly, it presents the general perspectives of the stakeholders concerning the process and the outcomes. This is followed by measurements which highlight the correlation between the process and the outcomes. The contribution which each component of the process makes to the outcomes will be explored, and the different effects, problems, and future priorities will be identified. Finally, it will confirm and develop the proposed priorities

for the model of the PEM. To support the statistical analysis a Pearson product-moment correlation coefficient, a canonical correlation, and a structural equation model will be applied. In addition, root analysis is used to determine the root problem in the PEM reform.

9.2. The Process and the Outcomes

9.2.1. General Perspectives of the Stakeholders

In order to ascertain the perspectives of the stakeholders concerning the process and the outcomes, the prior discussions concerning variables and measured indicators will be reviewed. As presented in Chapter Four, the indicators have been developed using theoretical and conceptual frameworks in PEM (Premchand, 1993; Schick, 1998a; Campo & Tommasi, 1999; Hashim & Allan, 2001). As discussed in earlier chapters, their perspectives in each measured indicator vary respectively. In this section their perspectives are composited²⁸⁶ into two main variables which are the process and the outcomes. The means of both variables from all of the stakeholders will be explored and compared, particularly to assess the variance in their perspectives.

Table 9.1. The Perspectives of the Stakeholders concerning the Process and the Outcomes

Groups	Process	Outcomes
Treasury officials (N = 46)	71 (15 indicators) Min.55 Max.88 Skew.-.19 Kurt.-.46	66 (21 indicators) Min.55 Max.78 Skew. .27 Kurt.-.61
Treasury staff (N = 203)	74 (32 indicators) Min.52 Max.94 Skew.-.17 Kurt.-.28	70 (54 indicators) Min.50 Max.85 Skew.-.56 Kurt. .87
Finance managers (N = 16)	71 (16 indicators) Min.56 Max.84 Skew.-.37 Kurt.-.54	70 (41 indicators) Min.59 Max.80 Skew.-.39 Kurt.-.69
Spending unit managers (N = 34)	74 (18 indicators) Min.38 Max.91 Skew.-1.35 Kurt. 3.12	73 (42 indicators) Min.59 Max.85 Skew.-.43 Kurt. .14
Disbursing finance officers (N = 33)	74 (19 indicators) Min.46 Max.87 Skew.-1.54 Kurt.3.56	74 (48 indicators) Min.57 Max.85 Skew.-1.12 Kurt.3.82
Providers of goods & services (N = 31)	70 (7 indicators) Min.33 Max.81 Skew.-2.18 Kurt.5.14	76 (3 indicators) Min.56 Max.83 Skew.-1.63 Kurt.3.22

²⁸⁶ In order to make comparison easier, the composed indices of variables are adjusted to a hundred-point scale.

The statistical means²⁸⁷ of the process and the outcomes from the groups of the stakeholders are presented in Table 9.1. Although they are composed of a different number of indicators²⁸⁸, the indicators are used to measure two similar latent variables. Generally, the perspectives of the stakeholders concerning the process and the outcomes are more than fair (> 60 points on a hundred-point scale). The means of the process vary from 70 to 74 and the means of the outcomes range from 66 to 76, and it is clear that the discrepancy in the outcomes is broader than in the process. This indicates that although the perspectives of the stakeholders concerning the process are similar, a significant variation exists in the outcomes. Exploring this issue further, it can be seen that within the Treasury the perspectives concerning the outcomes are lower than the process. Moreover, the perspectives of the treasury officials are significantly lower than those of the staff. This strengthens the previous findings, as shown by many indicators, that the perspective of the Treasury is generally lower than other parties outside that institution due to the higher level of understanding concerning the details of the process and the expected outcomes. Additionally, it presumes that senior treasury officials knew more about both the technical issues and treasury policies than were considered in the PEM. To some extent, poor policies in terms of lack of integration between treasury functions and frequent changes of operational regulations made them less satisfied than the staff.

Within line ministries the perspectives concerning the process and the outcomes were almost equal. The findings indicate that they considered the achieved outcomes to be in line with the process that has been taken since the reform commenced. However, in regard to the process the perspectives of the finance managers at ministry level were

²⁸⁷ Not only means but also minimum and maximum scores, kurtosis and skewness as the measurements of central tendency are informed.

²⁸⁸ The indicators of the process vary from 7 to 32 and the indicators of the outcomes range from 3 to 54; the highest number of indicators is measured from the treasury staff and the lowest number of indicators is applied to the providers of goods and services (Appendix 9). The differences occur because the indicators are set by considering the different scope of knowledge concerning the reform between the groups, respectively. Consequently some indicators are less reliable to be asked to the other group.

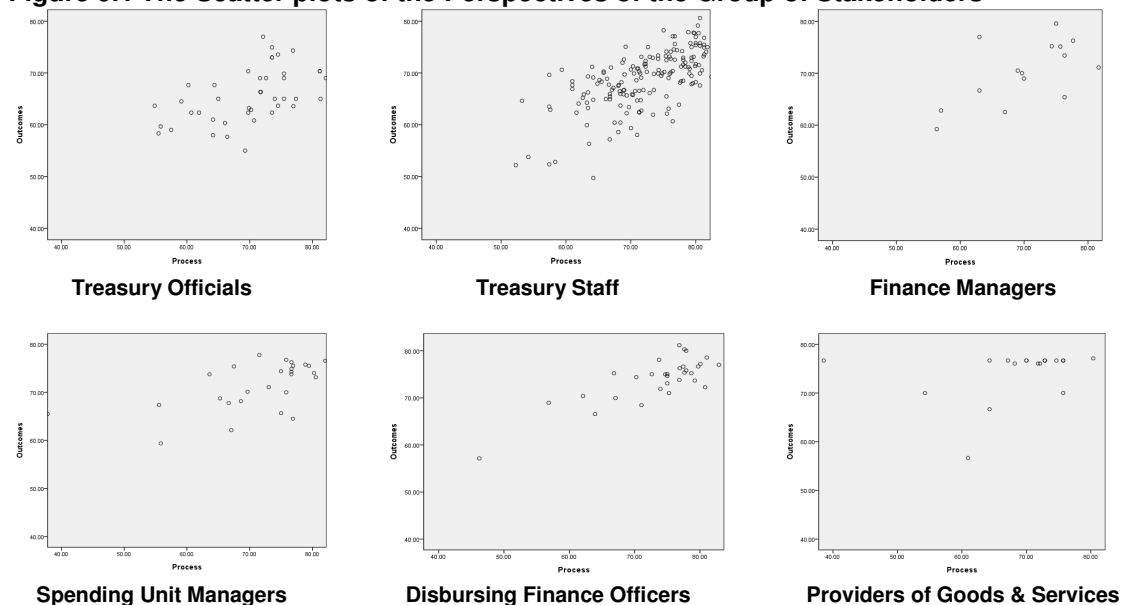
lower than the other two groups, though their perspectives were similar to the perspectives of their counterparts at the Treasury. It is apparent that at the central level they were better informed concerning the expected outcomes and delivered process than the spending unit managers and the finance officers. At the operational level, the spending unit managers and the disbursing finance officers shared similar perspectives concerning the process and the outcomes, though it indicates that finance managers do not get involved actively in daily treasury management nor do they interact much with treasury officers or treasury agents. Therefore it can be inferred that at the operational level stakeholders tend to compare the practices before and after the reform rather than the practices between the expected and existing outcomes. In addition, they compare the previous practices and the new standard operating procedures after the reform. However, the most satisfied group in the PEM reform was the providers of goods and services, although their perspectives concerning the process were similar to other groups while they held higher opinions of the outcomes. This is consistent with the finding of the perspectives of the operational level spending unit managers and disbursing finance officers. Overall, the findings suggest that the outcomes have been particularly appreciated by the providers.

Therefore it can be concluded that although related parties consider the process and the outcomes of the PEM reform to have been fair/good, both process and outcomes have been appreciated more by the outside parties than by the Treasury. Moreover, within the Treasury the reform has been appreciated more positively by the staff than by senior officials. An understanding of expected outcomes and delivered services helps explain the different perspectives between the stakeholders.

9.2.2. The Homogeneity and Heterogeneity between the Perspectives

The perspectives of the stakeholders concerning the process and the outcomes were all generally positive regarding the overall change. However, Figure 9.1, presenting the scatter plots as the measurement of dispersion, shows the differences between the views of the stakeholders. Plots representing the views of treasury staff tend to accumulate at the middle and upper-right side. Their plots differ from the perspectives of the treasury officials which tend to be scattered from the lower-left side to the upper-right side. This result shows that treasury officials vary markedly in their views concerning the process and the outcomes. However, the perspectives of the treasury officials are similar to the perspectives of the finance managers in line ministries although they were fewer in number than the treasury officials. It indicates that the perspectives of officials vary more than that of officers. But the spending unit managers, disbursing finance officers, and providers of goods and services, have plots accumulated at the upper-right side, with a scattering elsewhere on the chart. This suggests that they all share similar levels of satisfaction concerning the reform.

Figure 9.1 The Scatter plots of the Perspectives of the Group of Stakeholders



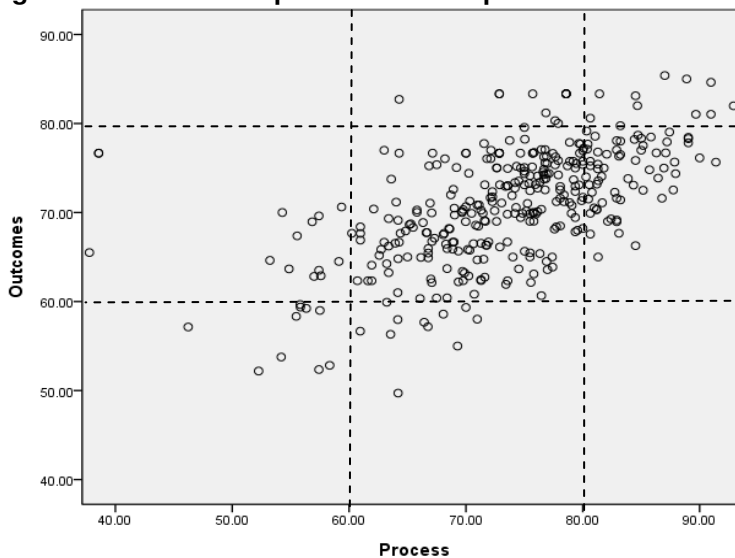
Overall, although the dispersion varies between the stakeholders, the plots of the treasury staff, spending unit managers, disbursing finance officers, and providers of

goods and services are accumulated more towards the upper-right side whereas the plots for the treasury officials and finance managers are slightly more scattered. Therefore it can be concluded that officials who were well-informed concerning policy, whether at the Treasury or in a line ministry, had more varied opinions concerning the process and the outcomes of the reform than the officials and officers who were evidently well-informed concerning operational practices but less-informed concerning treasury policies.

9.3 Correlation between the Process and the Outcomes

9.3.1 Tendency of Association by using scatter plots

Figure 9.2 The Scatter plots of the Perspectives of the Stakeholders



In this section the correlation between the components of the process that contributed significantly to the outcomes will be presented. Figure 9.2, above, presents the perspectives of all stakeholders, and it can be seen that there is a strong positive association between the process and the outcomes. The diagonal pattern of the plots from the lower-left side to the upper-right side and homoscedasticity are evident. Moreover, it shows many plots above 60, both for the process or for the outcomes, but the number of plots above 80 on the upper-right indicates that some participants

considered that the process and outcomes were outstanding. In addition, some of the stakeholders acknowledged that the level of the outcomes had been better than the level of the process. It is acknowledged, however, that the number who responded in this way was relatively smaller than the stakeholders who considered that the outcomes had been less effective than the process. A scattering of responses on the lower-left shows that some stakeholders considered that the outcomes were below expectations (< 60 points); although this proportion is relatively insignificant, it is evident that the reform did not satisfy all stakeholders. Considered overall, the perspectives of the stakeholders show a marked and positive association between the process and the outcomes of the PEM reform. The higher the process was delivered the stronger the outcomes.

9.3.2 Correlation between the Process and the Outcomes using the Pearson Product-moment Correlation Coefficient

Table 9.2. The Correlation between the Process and the Outcomes

Groups	Correlation between the process and the outcomes	Significance
Treasury official (N = 46)	.631**	.000
Treasury staff (N = 203)	.725**	.000
Finance manager (N = 16)	.597*	.015
Spending unit manager (N = 34)	.692**	.000
Disbursing finance officer (N = 33)	.820**	.000
Provider of goods & services (N = 31)	.628**	.000
Total (N= 363)	.592**	.000

** . Correlation is significant at the 0.01 level (2-tailed). * . Correlation is significant at the 0.05 level (2-tailed).

Use of the Pearson product-moment correlation coefficient enables closer identification of the proportion of variance in the process that is associated with levels of the outcomes in the groups and the stakeholders. As can be seen in Table 9.2, the correlation between the process and the outcomes within all groups of stakeholders shows their level of significance ($p < .05$ for sample size less than 30, $p < .01$ for moderate sample size). The correlation coefficients vary from a low of 0.597 to a high of 0.820, and according to Healey (2010) a value between .30 and .60 reflects moderate

correlation and a value greater than .60 reflects strong correlation. Therefore, except for the finance managers, who were small in number, all of the stakeholders demonstrated a strong correlation. Although more numerous, the treasury staff had a correlation coefficient lower than that of the disbursing finance officers, this demonstrating a wider range of perspectives within treasury. Overall, since the correlation coefficient is .592 ($p < .05$), it can be concluded that the correlation between the process and the outcomes in the PEM reform is statistically significant with a moderate effect size. However the effect size from the components of the process cannot be determined from the discussion above. The extent of the relationship between the components of the process and the outcomes of each treasury function will be explored next.

9.3.3. Effect Size of the Components by using Canonical Correlation

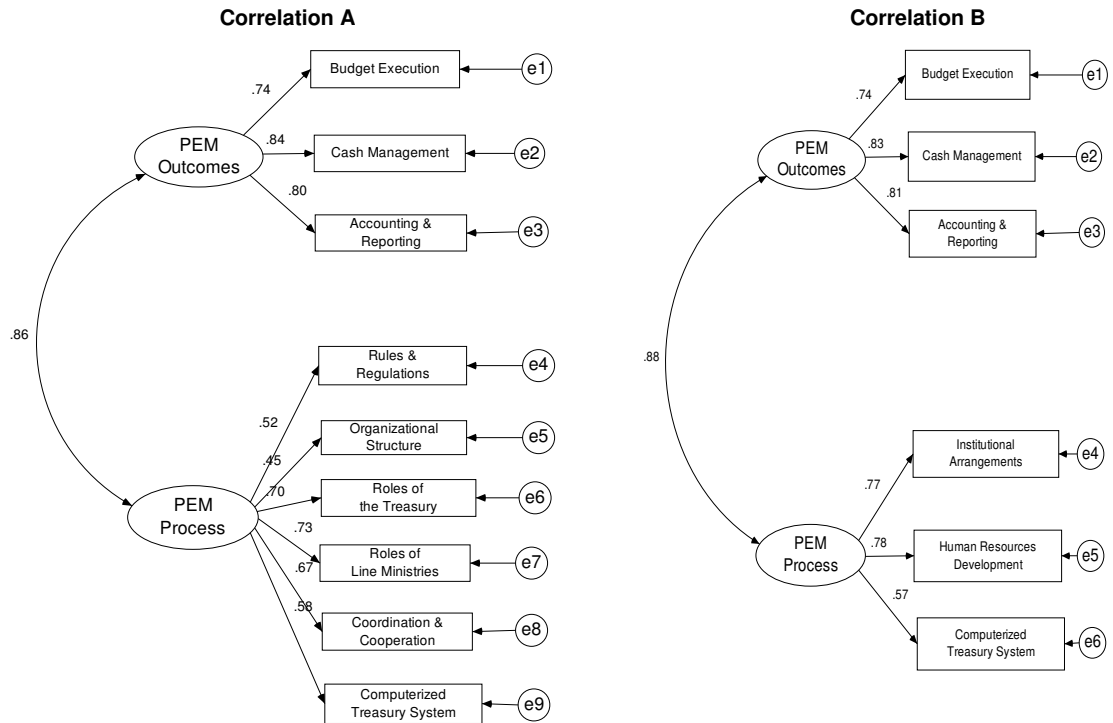
In order to explore the influence of the components of the process and the outcomes, a canonical correlation²⁸⁹ has been developed. As noted in the previous chapters, the findings indicate that the development of the process was affected by all treasury functions considering that the reform entailed gradual implementation. The data of the responses of treasury staff²⁹⁰ have been used, six process variables being examined: rules and regulations; organizational structure; roles of the Treasury; roles of line ministries; coordination and cooperation; and computerized treasury system. Unlike the treasury officials, the variable of ‘grand design and strategy’ was not collected from the staff for it was assumed that the staff was less concerned about the grand design and strategies of the reform. Assessment of the outcomes included three measured variables: budget execution; cash management; and accounting and reporting. Therefore, the

²⁸⁹ Canonical correlation can be used to test the iterative relation between the process and the outcome in the reform.

²⁹⁰ It has a moderate number of cases and as previously presented, the correlation is significant and the effect size is strong ($p < .01$, $r = .659$). The unidimensionality of variables as presented in Appendix 9 is supported by good Cronbach's alpha that is over .70 although some variables that have lower alpha are still considered due to the moderate reliability of corrected item statistically (Hair *et al.*, 2010).

canonical correlation has been developed to measure the effect/size of each component within variates.

Figure 9.3. The canonical correlation between process and outcomes in the PEM



Referring to Figure 9.3, the coefficient between the PEM process and the PEM outcomes shows a strong correlation of .86 (>.80). This means that 74% canonical roots affect each of the variates. Also, it indicates that the achievement of the outcomes was affected by the progress of the process, but conversely the sustainability of the process was aided by the gradual achievement of the outcomes. Therefore it supports the previous findings that the link between the process and the outcomes has been not only a linear relationship but also it has been an iterative interaction. To some extent the gradual approach in the reform contributed to this iterative process. Consequently the process in terms of the enhancement of components has been adjusted to the achievement of outcomes.

The perspectives of the treasury staff show factor loadings for the process that vary from a low of .45 to a high of .73. The three highest loadings are the roles of the

Treasury, roles of line ministries, and coordination and cooperation, the three lowest loadings being rules and regulations, organizational structure, and computerized treasury system. This demonstrates that the staff, as one group of stakeholders, considered that the roles of these institutions and their coordination and cooperation contributed significantly to support the outcomes of treasury functions. But they also indicate that rules and regulations, organizational structure, and computerized treasury system contributed less significantly, although they acknowledge that all components supported the outcomes. Therefore it suggests that although all variables were significant for the progress of the PEM process ($> .30$), some variables, such as the roles of institutions and coordination and cooperation, contributed to the process more than other components.

In regard to the outcomes of the PEM reform it is apparent that the process positively influenced all treasury functions. However, the staff reported that the results in respect of cash management (.84) were higher than the results in both budget execution (.74) and accounting and reporting (.80). It is evident that they appreciated the achievements in aspects of cash management (such as treasury single account, the remuneration of idle cash balance, and the control on cash advance) although they were less satisfied with cash planning. Moreover, they acknowledged the main roles of the Treasury in cash management. As explained in Chapter Ten, although many stakeholders felt that accounting and reporting achieved significant progress, the overall perspectives of the staff concerning accounting and reporting were slightly lower than for cash management due to a lower satisfaction in the implementation of accrual accounting and the quality of financial reports at the operational level. However, the perspectives are lowest in regard to budget execution, primarily because of the low budget absorptions, the number of budget adjustments, and the less optimal roles of

finance officers at spending units; all these reflected the poor performance of the spending unit in managing resources. Therefore, from the perspective of the Treasury at the operational level, by analysis of the canonical correlation it appears that the process contributed more to the outcomes of cash management and accounting and reporting than to the budget execution.

9.3.4. The Variation of Effect Size among the Regions

Based on the responses of the treasury staff, in order to confirm the consistency of correlation and its iterative relation, the data are grouped into three main geographical regions of treasury service: firstly, the region of Sumatra and Borneo; secondly, the Java region; and thirdly, Celebes, Papua and other regions. However, as presented in Table 9.3 below, the results in terms of factor loadings vary either in the process or in the outcomes.

Table 9.3. The Variance of Factor Loadings between Regions

Variables	Group 1 (N = 76) Sumatra and Borneo regions	Group 2 (N = 66) Java region	Group 3 (N = 61) Celebes, Papua & other regions
The PEM outcomes			
• Budget execution	.64	.90	.66
• Cash management	.90	.78	.86
• Accounting and reporting	.79	.79	.77
Shared variance	.61	.68	.59
The PEM process			
• Rules & regulations	.64	.35	.65
• Organizational Structure	.36	.55	.40
• Roles of the Treasury	.72	.76	.52
• Roles of line ministries	.73	.86	.59
• Coordination and cooperation	.74	.68	.58
• Computerized treasury system	.52	.73	.54
Shared variance	.40	.46	.30
Canonical correlation coefficient	.90	.83	.91
Canonical root	.81	.69	.83
Redundancy index (process to outcomes)	50%	47%	49%
Redundancy index (outcomes to process)	33%	31%	25%

In regard to the process, analysis of the factor loadings above .60 shows that group one considered that all components except organizational structure and computerized system had a strong correlation to the outcomes. Group two also reported strong correlations, although two components had weak relationships to the outcomes: namely, rules and regulations, and organizational structure. In group three only the component of rules and regulations correlated strongly with the outcomes. In general, all of the groups considered that the effect size of organizational structure was low. But these results support the previous finding that the roles of the Treasury, roles of line ministries, and coordination and cooperation were more significant than other components.

Although groups one and three shared relatively similar opinions concerning the components of rules and regulations and computerized treasury system, group two (which represents the Java region) had different perspectives. This supports the previous finding that there was an uneven distribution of skilled human resources between regions. In group two, the satisfaction with the roles of the Treasury related to the satisfaction with the roles of line ministries. This means that the Treasury succeeded in guiding line ministries in treasury management and that uneven distribution existed within line ministries. However, this relationship also occurred with the other groups in terms of the relationship between the low performance of the Treasury and the low performance of line ministries. Moreover, in group two, because human resources at treasury service offices had better expertise concerning IT they contributed to a higher effect size in the computerized treasury system. To some degree it helped them solve some problems in the system. However, the skilled human resources in Java also affected their perspectives concerning rules and regulations. They were less satisfied with this component than were the other groups, indicating that unclear rules and regulations hampered their roles at the operational levels. Therefore in regard to the

process, the perspectives of the regions were quite different. Better human resources in Java resulted in their perspectives concerning the components of the process being noticeably different from their counterparts in other regions. All this confirms the importance of human resource development in the reform.

In respect of the outcomes concerning the most significant functions of treasury, groups one and three selected cash management whereas group two selected accounting and reporting. However, the perspectives of all groups concerning accounting and reporting were similar compared with the other two treasury functions. It demonstrates the positive effect of accounting training programs on the outcomes. Moreover, it shows that the positive reports of budget execution in group two were affected by skilled human resources either at the Treasury or at line ministries. As noted earlier, budget execution needed the active roles of line ministries, supervision from the Treasury, and skilled finance officers in line ministries, all of whom contributed significantly to the budget execution. Therefore, from the perspectives of these groups it is clear that better human resources contributed to higher outcomes. Training programs for treasury staff across the country influenced the outcomes of accounting and reporting, but the uneven distribution of skilled human resources affected the outcomes of budget execution.

The level of correlation between the process and the outcomes within groups one and three is similar, but in group two it is significantly lower. However, to some extent the redundancy index²⁹¹ presents similar figures either from the components of the process to the outcomes or the variables of the outcomes to the process. Although the perspectives concerning the effect size of each component varies between the groups, at least the correlation coefficients are still moderate. Therefore, from the perspectives of

²⁹¹ It reflects the effect of all components within one cluster to another cluster in all of the groups

the respective regions this supports the previous finding that there are strong correlations and iterative relationships between the process and the outcomes.

Furthermore, in order to explore the robustness of human resource development, and considering that some components of the process are lower than .50 (although the factor loadings are quite significant) the components are classified here into three main components: institutional arrangements; human resource development; and computerized treasury system²⁹² (see Canonical Correlation B, Figure 9.3). By re-running the canonical correlation, the factor loadings become .77 for institutional arrangements, .78 for human resource development, and .57 for computerized treasury system. These results also support the previous findings concerning the significant role of human resource development. These figures suggest that from the perspective of the Treasury at the operational level, human resources, whether at the Treasury or at other stakeholders and institutional arrangements, contributed more to the outcomes than did the computerized treasury system.

In general, it can be concluded that in the PEM reform there was a strong and iterative relationship between the process and the outcomes. Therefore changing a variable either in the process or at the outcomes can change the composition of the other variates. Moreover, the variables of the process can be grouped into institutional arrangements, human resource development, and IT development, all of which contributed to the achievement of the outcomes within treasury functions. From the canonical correlation it can be seen that the treasury staff considered that human resource development, particularly the roles of line ministries, was the most significant factor in the outcomes, but it also implies that the poor roles of line ministries

²⁹² As noted in Chapter Five, these main components reflect the main strategies of the PEM reform. The variable of institutional arrangements is the unification of rules, regulation, organizational structure, and cooperation and coordination. Coordination and cooperation is put under institutional arrangements because of the function to enhance rules of the game between institutions informally. The variable of human resources development consists of roles of the Treasury and roles of line ministries but computerized treasury system is set singularly.

contributed to poor outcomes of the reform in respect of budget execution. It raises questions as to whether this indicates the main problem and the future direction that should be taken, and whether the perspectives of the staff were shared by the other stakeholders. These issues will be explored in the following section.

9.4. Components of the Process, Problems and Future Directions

9.4.1. Exploring problems by using root analysis

In the previous section it was evident that from the perspective of the treasury staff, the roles of institutions, particularly the roles of line ministries, related significantly to the outcomes of the reform. As noted in Chapter Five, interviews revealed that some stakeholders at the Treasury and at some ministries acknowledged that the problem which hampered the implementation of PEM reform in general - and treasury management in particular - was the lack in capacity of human resources within line ministries. However, whether it was the central problem or only the manifestation of other problems, it is relevant here to identify its root cause.

Figure 9.4. Root Analysis of the PEM problems



By using root problem analysis (Figure 9.4), the lack of capacity of human resources concerning treasury management within line ministries was due primarily to a lack of treasury management training programs. As noted earlier, some disbursing finance officers complained that they had not received any training²⁹³ since the reform,

²⁹³ Later after several years of the reform the Treasury delivered the intensive training programs for officers within line ministries although they focus more on accounting and reporting; consequently poor capacity within line ministries happens mainly in budget execution and cash management.

this complaint being echoed by finance managers. As the main driver of treasury management reform, inevitably it was the responsibility of the Treasury to enhance the capacity of human resources within line ministries. However, as noted in Chapter Six, during the first four years of reform, the Treasury was inward-looking²⁹⁴; consequently it was less than optimal because the number of treasury trainers was so limited²⁹⁵. The problem was compounded because the Treasury had to concurrently train staff while creating new regulations and delivering treasury services. The most important thing is that treasury training programs were not supported by the modules which were needed as guidelines for the trainers and as guidelines for practicing finance officers. The unfinished training modules²⁹⁶ of treasury management were allegedly caused by the poor issuance and adjustment of treasury regulations and by ongoing, frequent changes to treasury regulations. In addition, within the Treasury it was hampered by the unclear responsibilities of the unit²⁹⁷ responsible for the modules. Furthermore, in addition to poor issuance there were frequent changes²⁹⁸ to treasury regulations, complaints being made about this by stakeholders within the Treasury and in other external agencies. It is clear that the development of rules and regulations had not been completed at the time of the reform despite all stakeholders needing clear and stable rules and regulations. It raises a further question as to whether the main problem was the Law itself, which was not clear, or whether some changes during the parliamentary debates then influenced and confused implementation. In general, the inability of line ministries to adequately deliver treasury management was caused by the Treasury itself, particularly its lack of

²⁹⁴ The Treasury focused on enhancing the capacity of human resources within the institution itself which are expected to understand not only the level of concepts but also the level of practices.

²⁹⁵ In addition, the roles of the training unit under the MoF were seemingly passive and less-performed because the changes in treasury management by the Treasury were poorly informed to the unit.

²⁹⁶ The modules are prepared based on rules, regulations, and operational procedures.

²⁹⁷ There were unclear responsibilities to handle the treasury modules in particular between operational units such as the budget execution unit, the cash management unit, and the accounting and reporting unit, and supporting units such as the human resources development unit, the treasury regulation and system unit. Later to solve this problem, a team was established.

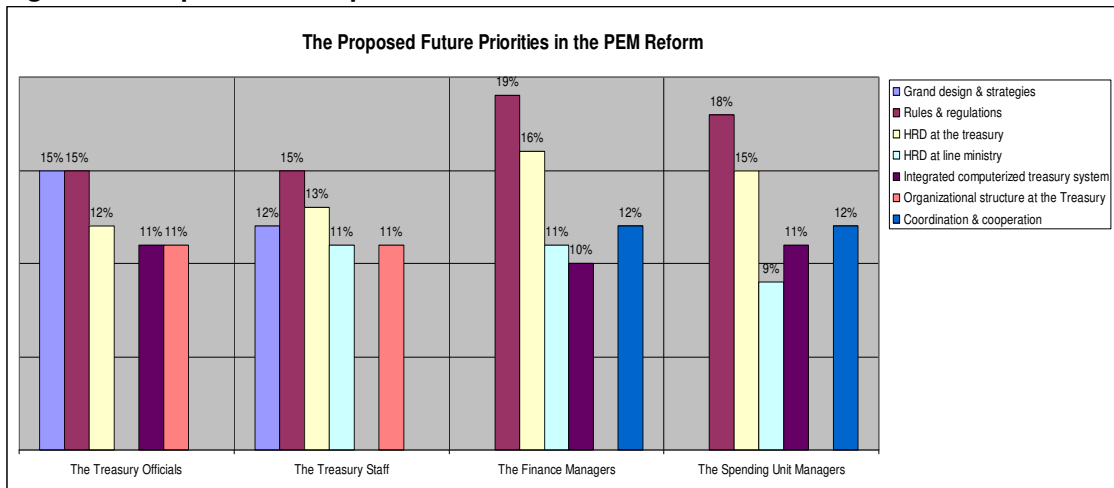
²⁹⁸ For the changes, the Treasury explained several reasons such as to adjust other changed regulations horizontally, to explain further high level regulations vertically, and to accommodate new policies and gradual implementation of the reform.

preparation to issue thorough, clear rules and regulations as mandated by the Laws. To confirm these problems, the perspectives of other stakeholders concerning future priorities are explored in the following section.

9.4.2. Proposed Priorities

An overwhelming majority of the treasury officials (93.5%) and staff (95%) agreed that the PEM reform could have been accelerated. This reflects the view that the progress of the PEM reform has not yet been optimal. However, to determine which strategies should be taken it is necessary here to identify which components performed less effectively than others. To identify the components, the perspectives of the stakeholders concerning future priorities are explored. This presumes that the proposed priorities²⁹⁹ enunciated by the stakeholders reflect, to some degree, the problems in the reform process. The five highest priorities from each group of stakeholders are presented below (Figure 9.5.).

Figure 9.5 Proposed future priorities in the PEM reform



Treasury officials recommended that Treasury should develop and enhance rules and regulations as the first priority, this being followed by measures that would explain the grand design and strategies, and by improved management of human resources at

²⁹⁹ Eight to ten potential priorities which cover the components of the process and the operational procedures for treasury functions are asked of the stakeholders.

the Treasury; it should be noted, however, that the difference between the scores for the first and the second priorities is not significant. Organizational structure and computerized treasury system are the next priorities, both figures being similar. Interestingly, the officials did not consider coordination and cooperation and the roles of line ministries as their highest priorities. Like the treasury officials, treasury staff recommended rules and regulations as the first priority, followed by promoting the roles of the Treasury and developing a grand design and strategies. As their fourth and fifth priorities they proposed structural organization and the roles of line ministries, though their scores for these were quite close. All this suggests that the treasury officials and staff agreed that the rules and regulations and the grand design and strategies were the most significant components. This then implies that both poor rules and regulations and poor grand design and strategies were considered to be key problems. In addition, it can be inferred that within the Treasury, coordination and cooperation was not considered a problem, being less significant than organizational structure.

Within line ministries the finance managers and the spending unit managers shared opinions similar to the treasury officials regarding the issuance of rules and regulations as the first priority for the future. This was followed by the need for increased skills, attitudes, and services by the Treasury in order to fulfill its roles. Unlike the Treasury officials, this group nominated coordination and cooperation between line ministries and the Treasury as amongst their highest priorities. Lower priorities were human resources at line ministries and the computerized treasury system. It can be seen that finance managers and spending unit managers expected that the PEM reform should have been supported by adequate training and clear rules and regulations, these being their top priorities. In addition, these views show that there was a lack of coordination and cooperation between institutions. In the light of the priorities, such as

the roles of the Treasury and coordination and cooperation, it can be inferred that line ministries still need guidance from the Treasury in treasury management.

The perspectives of the finance managers and the spending unit managers were endorsed by the disbursing finance officers who proposed the supervision of the Treasury as the first priority (122 points). This was higher than the control by spending unit managers which was nominated as the third priority (109 points). It can be concluded from this that the roles of the Treasury at operational levels are considered to be very helpful. Training on treasury management was selected as the second priority (111 points), this supporting the previous finding concerning poor training programs and the need for more guidance from the Treasury in treasury management. Furthermore, the officers and other stakeholders within line ministries expected Treasury to develop an integrated and user-friendly computerized system (108 points). It indicates that the centralization of IT development by the Treasury made users at line ministries more dependent. Interestingly, although one of the objectives of the reform was to enhance the independence of finance officers, it was accorded the lowest priority (72 points). From this it can be assumed that the disbursing finance officers were satisfied with their existing roles and functions or, as noted earlier, they were less concerned with the new concept of PEM in terms of enhancing their functional independence. As root analysis shows, operational finance officers were more concerned with technical matters than policy matters, but it supports the previous proposition that the issuance of poor technical and operational guidelines was a reflection of weak institutional arrangements.

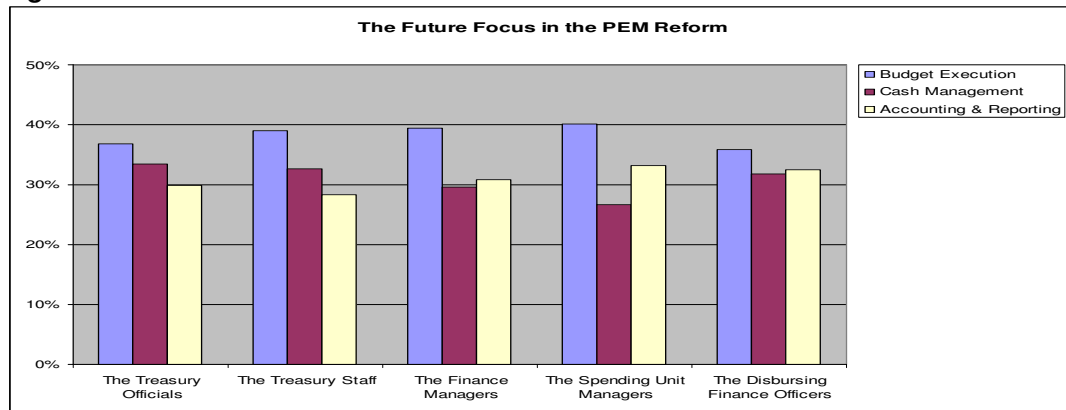
The analyses of the quantitative data above are consistent with the findings from the qualitative data as presented in the following quotations from some representative stakeholders:

...the Finance Minister has to restructure actions plan in order to accelerate the implementation of new approaches which are mandated by the Laws... (The Principal Auditor of the BPK– SAI01)

...I think the most important thing is how the government, in this term the Ministry of Finance, is consistent with the policies that have been launched so far...but they lose in the implementation so that some policies have to be evaluated... (The Head of provider association – PRO01)

All this reveals that the majority of stakeholders propose institutional arrangements in terms of grand design, rules and regulations, and coordination between institutions that should be enhanced in the future.

Figure 9.6 Future focus on PEM reform



Furthermore, the expectations of the stakeholders concerning rules and regulations which should be issued in the future can reflect the performance of treasury functions. Figure 9.6 shows that all of the stakeholders propose that the operational guidelines for budget execution should be prioritized. It can be inferred that the outcomes for budget execution were less satisfactory than other treasury functions. This supports the previous finding that rules and regulations concerning budget execution are still poor and do not yet reflect the essence of the reform, particularly the objective of applying performance-based budgeting. However, unlike their counterparts at line ministries, the groups of stakeholders at the Treasury propose operational guidelines for cash management as being of higher priority than those for accounting and reporting. It strengthens the previous findings regarding the basic function of the Treasury in cash management, the lack of integrated strategies in cash management, and the positive

results of accounting and reporting. Within line ministries, the expectation of operational guidelines for budget execution reflects the basic function of line ministry to deliver programs and activities. Moreover, the expectations of the disbursing finance officers concerning all treasury functions reflect their roles of supporting performance and finance management at operational levels.

In general it can be assumed that the stakeholders recommend, firstly, the enhancement of institutional arrangements, such as grand design, and rules and regulations before developing human resources either at the Treasury or at line ministries. They also stress the importance of coordination and cooperation between institutions and within institutions. Although a computerized treasury system is important at operational levels, it is proposed as a lower priority. To confirm the importance of institutional arrangements, the model that shows the relationship between institutional arrangements, human resources, and computerized system is developed in the following section by using a structural equation model.

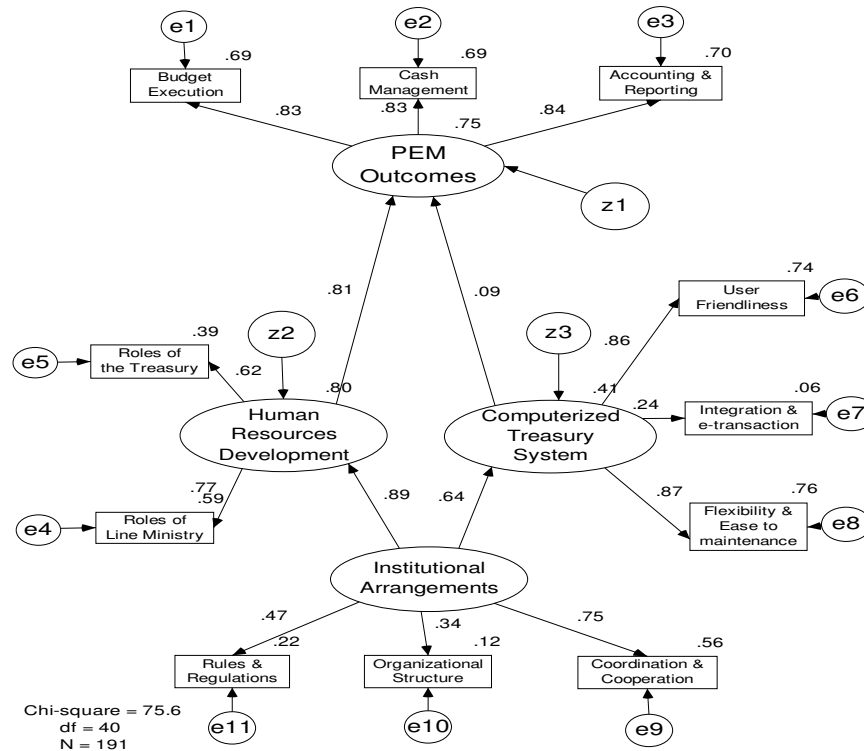
9.5. The Importance of Institutional arrangements in the PEM Reform by using structural equation modeling

The model presented in Figure 9.7 is based on PEM theory, previous findings, and the adequate sample size. It has been modified from the canonical correlation model, presented in Section 10.3, by changing the model from correlation between constructs to dependence relationships between constructs. The model employs four latent variables and eleven measured variables and is suitable for a moderate sample size. PEM outcomes, institutional arrangements, human resources development, and computerized treasury system are set as latent variables³⁰⁰. Considering the moderate

³⁰⁰ Institutional arrangements are supported by three measured variables which are rules and regulations, organizational structure, and coordination and cooperation. Under human resources development, it covers the roles of the Treasury and the roles of line ministries. But different from canonical correlation model, computerized system is elaborated into

sample size, maximum likelihood as one of the estimation methods of unknown parameters is applied.

Figure 9.7. Structural Equation Modelling – the Processes and the Outcomes of PEM Reform



As a result, the construct has 26 parameters and 40 degrees of freedom. It presents a sound SEM in terms of reflecting an over-identified model. In addition, the model is tested by considering its normality³⁰¹, linearity, and homoscedasticity as suggested by Tabachnick and Fidell (2007). Although it uses a moderate sample size, the comparison between variables or parameters and cases³⁰² is good. Several models have already been developed, tested and then modified, considering modification index as one of the model modifications, but in this section the latest model is presented. It already considers the quality-of-fit in terms of overall fit, comparative fit to base model,

three measured variables which are user-friendliness, flexibility and ease to maintenance, and integration and e-transaction. At the outcomes, it is still supported by three treasury functions.

³⁰¹ Although the measured variables of structural organization and integration and e-transaction are less normal, they are still included due to the purpose of the model to confirm proposed theory and findings.

³⁰² Approximately 1 parameter is to 5 cases or 1 measured variable is to 18 cases. Then, by exploring mahalanobis d-squared, 11 outliers that are above 30 are eliminated from the cases. The number of cases reduces from 203 to 192 but the ratio between variables and cases is still reliable. Even the number of cases in the model is slightly higher than the median of sample size for full SEM model in many studies as noted by Baumgartner and Homburg (1996) which is 180 cases.

and model parsimony (see Appendix 10) as recommended in the literature (Bollen 1989; Baumgartner & Homburg, 1996; MacCallum *et al.* 1996; McQuitty, 2004; Cunningham, 2008; Wijanto, 2008, Hair *et al.*, 2010). Therefore the model has already been prepared and tested appropriately.

The model shows the relationships between the latent variables within the PEM reform in terms of the standardized regression coefficients' which range from a low of .09 (computerized system to the PEM outcomes) to a high of .89 (institutional arrangements to human resources development). It explains 75 percent of the variance in the PEM outcomes from the process, and it is similar to the canonical model discussed earlier. Moreover, it suggests that the outcomes have been achieved by human resources development (.81) rather than by computerized treasury system (.09). It can be inferred that the development and utilization of a computerized system depends on the human resources both inside and outside the Treasury; a sound computerized system needs skilled human resources. Therefore the model strengthens the previous finding that the variable of human resources development contributes more significance than the variable of computerized system. Furthermore, it shows (i) that the reform will not succeed if the Treasury focuses only on the development of human resources within the institution (.72), (ii) that the development of human resources at line ministries is of equal importance (.77), and (iii) that even the treasury staff acknowledge that the roles of line ministries are slightly more important than the roles of the Treasury. This is so because, operationally, the Treasury functions in terms of executing budget allocation, yet the recording of transactions and managing cash advances are delivered by financial officers at line ministries. It supports the previous proposition that finance managers and finance officers within line ministries are appointed mainly to support the key roles of the Treasury in the PEM. In developing the computerized treasury system, user-

friendliness (.86) and flexibility and ease of maintenance (.87) were considered to be very important; although it was also apparent that the integration of a computerized system and the implementation of e-transactions were still poor (.24). This demonstrates that an integrated financial management information system - one of the objectives of the PEM reform - was not accomplished, but at least operational computerized systems have been available.

The model confirms the linear approach in PEM reform whereby the variable of institutional arrangements accelerates other variables. It is reflected in a strong correlation to human resource development (.89) and a moderate correlation to computerized treasury system (.64). The contribution to human resource development appears one and a half times larger than the computerized treasury system, indicating that institutional arrangements affect the roles of institutions more than the computerized treasury system. In institutional arrangements, the Treasury has to define a clear grand design as well as strategic milestones, to issue all necessary rules and regulations (.47), and to devise an appropriate organizational structure (.34) in line with the new roles of the Treasury. However these will be difficult if the coordination and cooperation within units under the Treasury, and between units hierarchically, are weak due to the important function of coordination (.75) in supporting other measured variables. It suggests that the reform needs coordination and cooperation, particularly between institutions such as the Treasury and line ministries, the Treasury and budget units, and also within institutions such as between divisions within the Treasury. Coordination and cooperation are essential for the delivery of services and also for creating policies and developing rules and regulations. Furthermore, this demonstrates that there are significant indirect effects of .78 (i.e. $.89 \times .81$ and $.64 \times .09$) from institutional arrangements to the PEM outcomes through the components of human

resource development and computerized treasury system. The important function of institutional arrangements in the PEM Reform is proved.

In general the model supports the strategy of reform which emphasizes three main aspects in terms of institutional arrangements, human resource development, and computerized systems. The institutional arrangements become the main variables in the process because they accelerate the progress of other variables. It posits that although institutional arrangements can be left behind, as a consequence the process is adjusted more frequently. In addition, it explains that the effect size of human resource development is greater than the computerized system in supporting the achievement of expected outcomes.

Overall, this study affirms that PEM is a system which consists of the interconnectedness between subsystems, as identified by Hashim and Allan (2001). A concurrent approach does matter in PEM reform. Moreover, this study has proved a linear iterative process in the reform statistically as shown by structural equation modelling and canonical correlation. However, poor understanding about concepts and context as supported by Root's analysis and questions concerning future directions to several parties affect the current achievements. This study supports the importance of institutional arrangements in terms of grand design, rules and regulations, organizational structure and coordination and cooperation in public sector reform. As supported by the structural equation modelling, the finding is consistent with Allen's (2009, p.16) critique that the fundamental constraint on reform is not the absence of sufficient skills or efficient IT systems, but rather the absence of an enabling institutional environment that makes it possible to move forward. According to Rose (2001), the overall set of institutional rules and organizational routines as institutional arrangements represent a dimension of the context in which the proposed reform has to operate. In addition,

although Pollitt and Bouckaert (2004) identified the pattern trajectories of the different area of reform, this study suggests the connectedness between the trajectories of treasury functions that leads to a concurrent approach in PEM reform.

9.6. Summary

This chapter has presented the positive and significant statistical relationships between the progress of the components of the process and the outcomes of treasury functions. The findings are endorsed by all of the stakeholders of the PEM reform. Moreover, by using canonical correlation analysis, the progress of the components of the process has been affected by the iterative achievement of treasury functions. This has resulted from the gradual implementation of the reform.

In regard to the PEM outcomes, the treasury functions of budget execution, cash management, and accounting and reporting, were accomplished satisfactorily. However, the functions of cash management and accounting and reporting apparently had better results than the function of budget execution. Furthermore, in the PEM process all components made positive contributions. Analysis of the perspectives of the treasury staff reveals that the roles of the Treasury, the roles of line ministries, and coordination and cooperation were considered to have provided greater contributions to the process than other components. All significant components reflect the interaction of institutions at the level of treasury services. In response to the problems that were identified, most of the stakeholders proposed that grand design and strategies, rules and regulations, coordination and cooperation should be enhanced in the future. It was concluded that the main problem still lies in the institutional arrangements. By using the structural equation modelling concerning PEM, it confirmed the function of institutional arrangements as the main variable that has positively accelerated the other main variables such as the roles of the Treasury and line ministries, and the development of a

computerized treasury system. In view of the importance of the roles of actors in the PEM, the next chapter will elaborate on the control arrangements between actors.

CHAPTER 10

THE PEM REFORM AND CHANGING CONTROL ARRANGEMENTS

10.1. Introduction

Discussions in the previous chapters about budget execution, cash management, and accounting and reporting provided abundant cases in terms of implementation of contemporary approaches such as performance-based budgeting, treasury single account (TSA), and accrual accounting. In fact, these are three core components of the PEM reform. Chapter Nine has also shown a positive correlation between the progress of the components of the process and the outcomes of approaches. However, the discussions show that explicitly the PEM reflects a set of controls, as Premchand (1995) emphasizes the importance of control in PEM by cascading control vertically from strategic planning, management control to operational control. Similarly, Schick (1998a) stresses control in PEM as the main component of getting the basics right by developing a hierarchy of control from external control through internal control to managerial control. It even persuades him to warn developing countries not to follow PEM practices by leap-frogging before certain controls are put in place. Thus it is argued that the PEM reform needs sound control management.

Considering that reform in itself is a big change, several questions emerge, such as what are the expected controls from each approach, how solid are the roles of related

institutions, how effective is the control arrangement after the reform, and how soundly the control arrangements are set. Hence this chapter will present the control arrangements and their achievements in the reform, and will then elaborate the patterns of changing control arrangements in the PEM.

10.2. Control Arrangements in the PEM

The control arrangements in the PEM will mainly explore Schick's concept of the importance of external, internal, and managerial control. Firstly, it will examine the expected control arrangements in treasury functions as criteria and the existing control arrangements based on the perspectives of the Treasury and line ministries as realization. Then the roles of the Treasury and finance managers at ministry level in delivering control after the reform will be discussed. In addition, it will elaborate the control by spending unit managers and finance officers at units as the development of internal control as well. At the end, the effectiveness, since the reform, of control arrangements to support the PEM reform at large will be presented.

10.2.1 Control arrangements in treasury functions

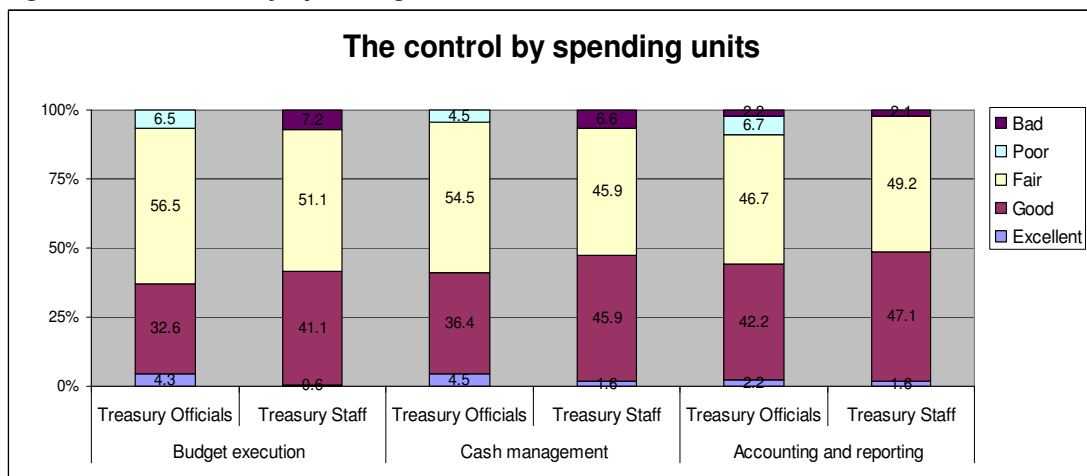
Control in budget execution

Chapter Six has shown that the essence of performance-based budgeting is flexibility at operational level, particularly at the spending unit in undertaking activities (MoF, 2002a). It is consistent with the segregation of roles between CFO and COO, in which performance achievement is the responsibility of the line minister as COO although operationally it will be delivered by spending unit managers as activities connected to programs. Budget execution in terms of achieving expected outcomes and outputs reflects the vertical dimension of the reform; it cascades the performance targets from minister, senior civil servant, to spending unit manager. Therefore the objective of budget execution, in terms of the implementation of performance-based budgeting, is to

support the performance of the spending unit manager as the proxy of COO by providing certain flexibility in utilizing resources. This is meant to provide flexibility without hampering control not only by the COO of targeted activities but also by the CFO of financial matters, suggesting the importance of figuring out how to provide flexibility³⁰³ in PEM.

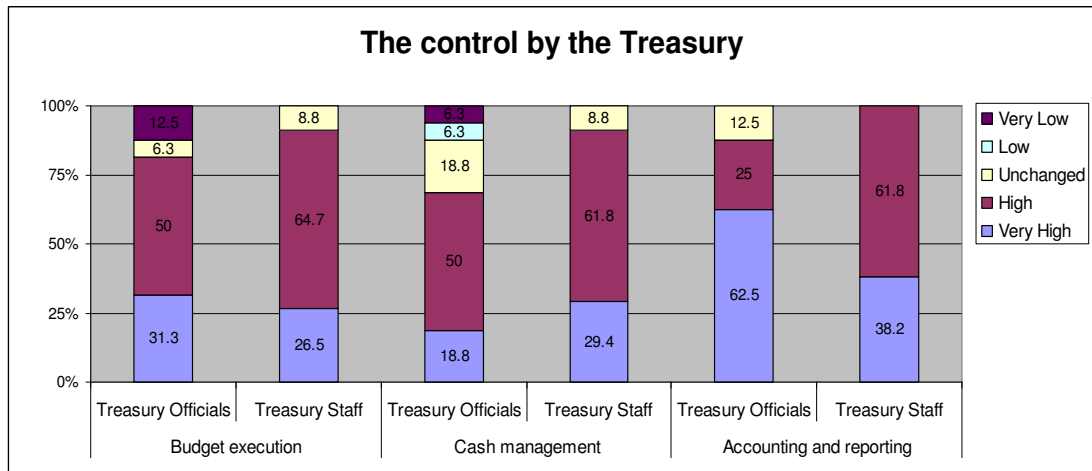
In the reform, the main change in control arrangements is the shift of pre-payment verification from the Treasury to spending units. It is clear that the reform empowers the roles of spending units in executing budget allocations. Concerning the level of control on budget execution by spending unit after the reform, the Treasury saw that generally the control was more than fair, although there are less than 10% of the treasury officials/ staff who considered that the control was ‘poor’ or ‘bad’ (Figure 10.1). The perspectives of the treasury officials and the treasury staff are somewhat similar but the officials had a better level of satisfaction than that of the staff. It can be inferred that the officials felt that sound control over budget execution by the spending unit was to a lesser extent contributed by the good supervision of the Treasury, although poor supervision from the Treasury can create poor control by spending units as well.

Figure 10.1 Control by spending units



³⁰³ Even various studies (Schick, 1998a; Otley, 1999; Ferreira & Otley 2009; Broadbent & Laughin, 2009) have focused on the definition of flexibility with inadequate discussion concerning how to loosen control and give flexibility.

Figure 10.2 Control by the Treasury

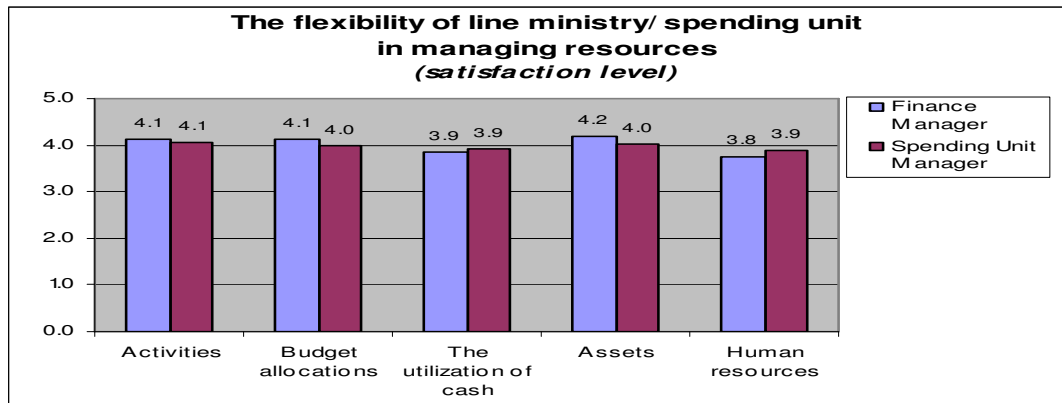


On the other hand, the line ministries saw that the level of control over budget execution by the Treasury was strong; they even considered that it is stronger than the practices before the reform (Figure 10.2). This indicates that although control, in terms of pre-payment verification, was shifted to the spending unit, it did not reduce the level of control by the Treasury. Therefore, in budget execution after the reform, as well as additional control by the spending unit, control by the Treasury is still high. All this suggests that although one of the objectives of performance-based budgeting is to provide more flexibility and minimize control on spending units, the reform in terms of shifting control has not released the level of control by the Treasury.

Furthermore, at operational level, in order to support the achievement of output, spending unit managers need more flexibility in terms of managing resources and delivering programs. Therefore the PEM reform has to support changing control, from controlling the detail of accounts as an input base, to controlling general accounts either as mixed inputs base or as an output base. In addition, it has to provide more flexibility in managing sub-activities and minor outputs in order to achieve targeted activity and output. However, in the system, the Treasury controls accounts, both generally and in detail, although spending units also control the detail of activities. This indicates that in

budget execution, at operational level spending unit managers have been given more flexibility in managing activities than in managing finance, although this raises a question of whether such imbalance can support spending units in delivering services positively.

Figure 10.3 Flexibility of line ministry/spending units



The Treasury itself (89.9% of the treasury officials and 90.1% of the treasury staff) believed that adequate flexibility in budget execution has been given to spending units. Interestingly, it is supported by the perspectives of the line ministries. The finance managers and the spending unit managers were generally satisfied with the flexibility in managing resources for accomplishing targeted outcomes and outputs, although they considered that flexibility in managing cash and human resources was less adequate (Figure 10.3). However, this reflects the existing institutional arrangements, in which the main role of the Treasury is managing cash and the main role of other central agencies³⁰⁴ is managing human resources. This shows the implicit connections between PEM reform and civil service reform. It can therefore be concluded that, although adequate flexibility has been given in several matters to spending units, the objectives of performance-based budgeting in budget execution have not yet been accomplished in terms of releasing control by central agencies.

³⁰⁴ The Ministry of State Apparatus centralizes human resources management in terms of appointment, dismissal, and retirement.

In budget execution, the essence of performance-based budgeting is to promote *ex-post* control in form of outcomes and outputs. The reform succeeded in determining the role of the line minister as budget user and in shifting the authority in verifying payment request from the Treasury to spending unit within the line ministries in order to let managers manage. However, although the reform was intended to control outputs and outcomes, the study shows that the reform struggled in restructuring programs and activities within line ministries before defining the expected outcomes and outputs. In addition, output costing³⁰⁵ was under developed. Moreover, other *ex-ante* controls such as regulations, application system, the issuance and approval of budget documents, and the appointment of minister proxy, commitment officer and cash disbursing officer were strengthened. Although all these are consistent with a wide range of control mechanism in a system (Dekker, 2004; Flamholtz *et. al.*, 1985) it shows the difficulty a developing country may have when applying the practices from advanced countries, as acknowledged by Steven (2004) and Allen (2009). In conclusion, even though the reform in budget execution is to promote *ex-post* control when applying performance-based budgeting, the Treasury had only limited mechanisms in setting *ex-post* control. Therefore, this study suggests the importance of setting other *ex-ante* controls before setting *ex-post* controls in budget execution. It also suggests that the release of authority from one entity to another should be followed by empowering the entity that receives the new authority.

Control in cash management

Like budget execution, the essence of cash management in terms of treasury single account is control, emphasizing the major roles of the Treasury in controlling the state cash, whether physically or electronically. So the reform is intended to bring

³⁰⁵ This approach needs support from the implementation of accrual accounting in order to set full output costing (Premchand, 2005).

public money from scattered units and finance officers across the country into one bank account at the Central Bank by sweeping all bank accounts daily. As an implication of this objective, it needs specialization and professionalism in the Treasury, and also sophisticated banking services to support the Treasury in integrating financial transactions. This reflects a vertical dimension of cash management in terms of controlling cash physically, such as cash in hand at finance offices, control of cash electronically such as in bank accounts, and control over transactions at operational level by the Treasury at central level. All this suggests that state money, wherever it is kept, is to be controlled and then utilized optimally by the Treasury.

Generally the treasury officials and staff were satisfied with spending units' control over cash management, particularly cash advance management (Figure 10.2). Even more than 40 per cent of the officials and staff acknowledged that the control was 'good' or 'excellent', although less than seven per cent considered that the control was 'poor' or 'bad'. The Treasury viewed control over cash management as slightly better than budget execution. This perspective was agreed by line ministries as well, although the spending unit managers felt that the level of control by the Treasury in cash management was relatively similar to budget execution (Figure 10.1). Interestingly, although some of the finance managers saw that the level of control by the Treasury in cash management did not change, the proportion is three times higher than their perspectives on budget execution. It can be inferred that control on cash advance management has not changed since the reform, although, as discussed in Chapter Eight, line ministries need more flexibility in cash advance management to support the accomplishment of programs and activities. This suggests that the Treasury has performed its role in controlling cash management, but that firm control on cash

advance management affects the execution of budget allocations and the accomplishment of programs and activities.

As presented in Chapter Seven, this study shows that although the reform was intended to manage cash professionally in terms of optimizing idle cash, it struggled in maintaining *ex-ante* control. In the system, *ex-ante* control was strengthened not only in form of sequential PEM processes (Allen and Tommasi, 2001), but also beyond the processes such as in regulations and standard operating procedures, the architecture of bank account, and application system. In terms of sequential processes, although technically the system controlled the authorization of payment orders in the form of authentic signature, the system was lacking in controlling pre-number documents, the connectedness to billing documents, and the authorization of financial officers. Positively, the Treasury controlled the request for cash advances and the opening of bank accounts. In addition to *ex-ante* controls, some types of *ex-post* control were applied, such as data reconciliation between the Treasury and operational banks and monitoring unverified transactions due to poor source documents or ineligible transactions. This shows that not all types of control, as suggested by Hashim and Allan (2001), were applied in the treasury system. The system lacked arrangements in terms of checking frauds and errors, monitoring big transactions, and flow of controls. All this suggests that the challenge of the role of the treasury is still in maintaining *ex-ante* controls and this study strengthens the important role of the treasury in approving financial transactions. In addition, this study reveals the implications of the adopting advanced practices in terms of new treasury functions that are beyond its capacity, but the Treasury tended to deliver new tasks by itself rather than appointing an agent.

Control in accounting and reporting

As shown in Chapter Nine, the essence of accrual accounting is exercising control at the billing stage. However, accrual accounting does not eliminate the importance of the cash basis in terms of control at the point of payment or receipt. Therefore accrual and cash basis will complement each other in producing more informative financial reports. In practice, a computerized accounting system has been developed and a large number of accounting training sessions have been organized since the reform. As a result, two-thirds of accounting officers had undergone training by mid-2009. Moreover, to enhance the quality of financial reports, reconciliation between treasury service offices and spending units was conducted. Other types of *ex-post* controls, such as review, statements of responsibility, financial audits, were implemented as well, although the concept of reporting entity is still weak in terms of robustness at ministry level. In addition, audit findings, recommendations and monitoring follow-up, and publicly audited financial reports, succeeded in enhancing the awareness of stakeholders. Therefore although efforts were made in accounting and reporting, which were to support the move towards accrual policy, commitment and billing accounting have not yet been applied.

Furthermore, like budget execution and cash management, the Treasury was already satisfied with the control by line ministries/spending units in accounting and reporting (Figure 10.2). Although the perspectives of the officials and the staff are relatively similar, the staff considered that the control by line ministries/spending units was slightly higher than controls on other treasury functions. The line ministries share similar perspectives to the level of control by the Treasury; they considered that the Treasury's control over accounting and reporting was the highest among treasury functions (Figure 10.1). Moreover, the finance managers felt that this level of control

was twice as high as that in budget execution and three times higher than that in cash management. This supports the previous finding on the focus of the reform being more on accounting and reporting than on other functions at the early period of the reform. Moreover, it can be inferred that the higher control on accounting and reporting by spending units and the Treasury contributed to the better results as well. It suggests that both the key actors have delivered their roles in accounting and reporting.

As presented above, the reform succeeded in applying various *ex-post* controls. However, although the nature of accounting and reporting focused on *ex-post* control in terms of the sequential process of expenditure management conceptually as emphasized by Allen and Tommasi (2001) and Stevens (2004), not only *ex-post* but also *ex-ante* controls had to be developed than before, such as the establishment of public accounting committee, the issuance of public accounting standards, regulations, standard operating procedures, massive training programs, and computerized accounting system. Hence, this study suggests that PEM reform in accounting and reporting strengthens not only *ex-post* controls but also *ex-ante* controls, although it supports that other types of *ex-ante* controls should be strengthened first before releasing control.

10.2.2. Control by the Treasury, finance managers, and finance officers

Sound control in the PEM is the main responsibility of the Treasury, but the controls are supported by other parties, particularly at line ministries such as finance managers at central level and finance officers at operational level. Even at operational level, several finance officers are appointed such as procurement officers, commitment officers, cash disbursing/receiving officers, payment order officers, and accounting officers. From the perspectives of line ministries, they saw that the control in terms of supervision by the Treasury were useful although less than five per cent of the spending

unit managers and the disbursing finance officers considered that it was not at all useful (Figure 10.4).

Moreover, the finance managers (46.7%) acknowledged that the Treasury’s supervision was very useful; indicating that this supervision supported their roles in monitoring treasury management within the ministry. However, concerning the control by the finance manager at ministerial level, although the spending unit managers (76%) felt that control in terms of its supervisory role was also useful, it is slightly less useful than supervision by the Treasury. This was agreed by the disbursing finance officers as well. In many cases, the spending unit managers and the finance officers preferred the solution involving treasury management by treasury service offices as partners at operational level rather than by finance managers at the centre. In addition, an overwhelming majority of the disbursing finance officers (91%) acknowledged that supervision by the Treasury was useful in supporting cash advance management. All this confirms that vertical and functional control from the Treasury and finance managers was appreciated positively by controlees, although supervision by the Treasury was considered more useful. It can be inferred that in line ministries, external control in terms of supervision by the Treasury was established, while internal control in terms of supervision by finance managers was not yet empowered.

Figure 10.4 The usefulness of control

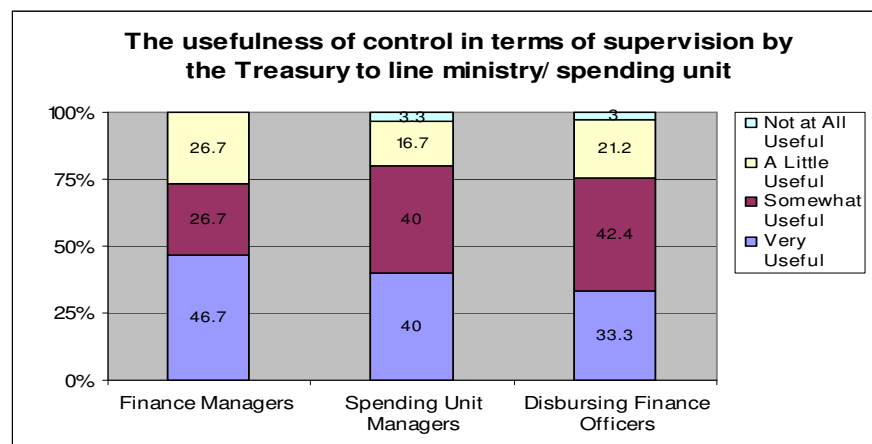
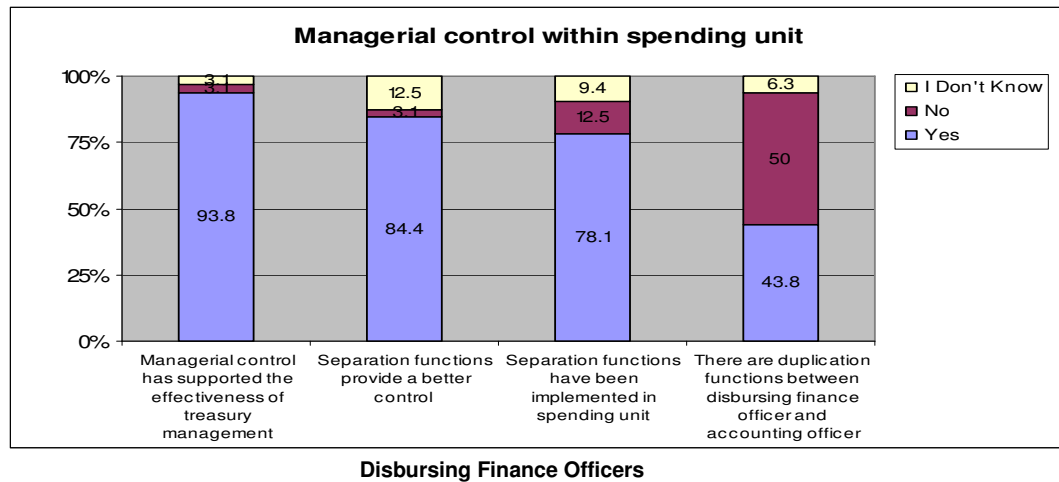


Figure 10.5 Managerial control within spending units



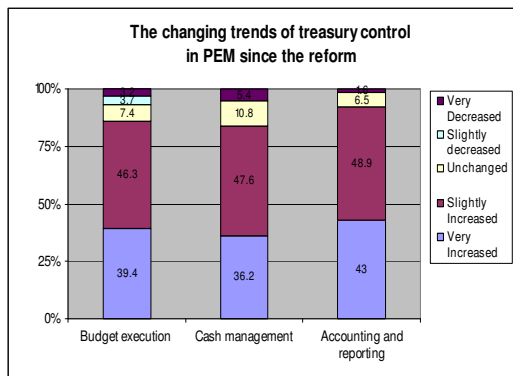
However, the Treasury considered that managerial control within spending units was not strong enough. This view was shared by the finance officers at spending units (Figure 10.5). Although they considered that internal control was developed and separation of functions between officers within spending units was important, not all of the spending units applied the segregation. Some of them were not concerned about the duplication of control in terms of double recording and accounting between finance officers at the spending unit. In general, it indicates that spending units had to be guided by the Treasury in developing internal and managerial control. This supports the previous finding that since the reform the Treasury has released certain control to spending units without giving adequate guidance. Although the governmental regulation concerning internal control was issued in 2008, operational guidelines were not available even by mid-2009, so reducing control by the Treasury without enhancing internal control arrangements can be problematic.

10.2.3 Changing control arrangements and effectiveness

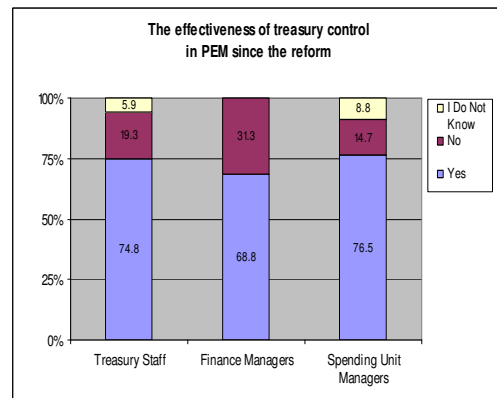
As noted earlier, the PEM reform entails changes in terms of control arrangements. It modifies treasury functions but the question is whether those changes have enhanced the effectiveness of the PEM itself. Concerning the level of control,

more than eighty per cent of the treasury staff considered that the control increased in all treasury functions after the reform, seeing that control in accounting and reporting had the highest level (Figure 10.6). It seemingly contributed to the positive results of accounting and reporting. However on the effectiveness of controls in the PEM, this has a lower acceptance than the perspectives concerning the changing trends of control itself, as stated by the line ministries (Figure 10.7). This shows that the majority of the stakeholders, either in the Treasury or in the line ministries, considered that the control arrangements in treasury functions were already effective to some extent in supporting the objectives of PEM reform, although a quarter of the stakeholders considered that the arrangements were less effective. All this suggests that the PEM reform reflects the changing control arrangements; many efforts were made but the Treasury has been struggling to accomplish the expected control arrangements. In view of such perspectives on effectiveness, the patterns of changing control arrangements in the PEM will be elaborated in the next section.

**Figure 10.6 Changing trend of treasury control
Treasury staff**



**Figure 10.7 Effectiveness of Treasury control
in PEM since the reform**



10.3. Changing control arrangements from principal-agent perspective

From the PEM, there are some patterns of the changing control arrangements. This has shown that PEM is a study about the control arrangements between controller and controlee, as noted by Premchand (1995), or between controller and spender as

emphasized by Schick (1998a). However, it is argued that segregating controller and spender only is not strong enough, because it does not point out clearly whether the relationship is between principal and agent or (more likely) between agents; in addition the arrangements can impose multiple vertical and horizontal relationships between controllers and controlees. So it is essential to understand the control arrangements in the PEM by using the principal-agent relationship, as acknowledged by Manning *et al.* (2008). In fact, in the PEM, the relationship between controller and contree represents a principal-agent relationship³⁰⁶. There are however multiple levels of principal-agent relationships between and within organizations vertically, as noted by Berry *et al.* (2009) and Poth and Selck (2009). Considering that the PEM reform reflected changing control arrangements, the changing relationships between controller [referred to hereafter as Cx] and contree [Cy] will be described next.

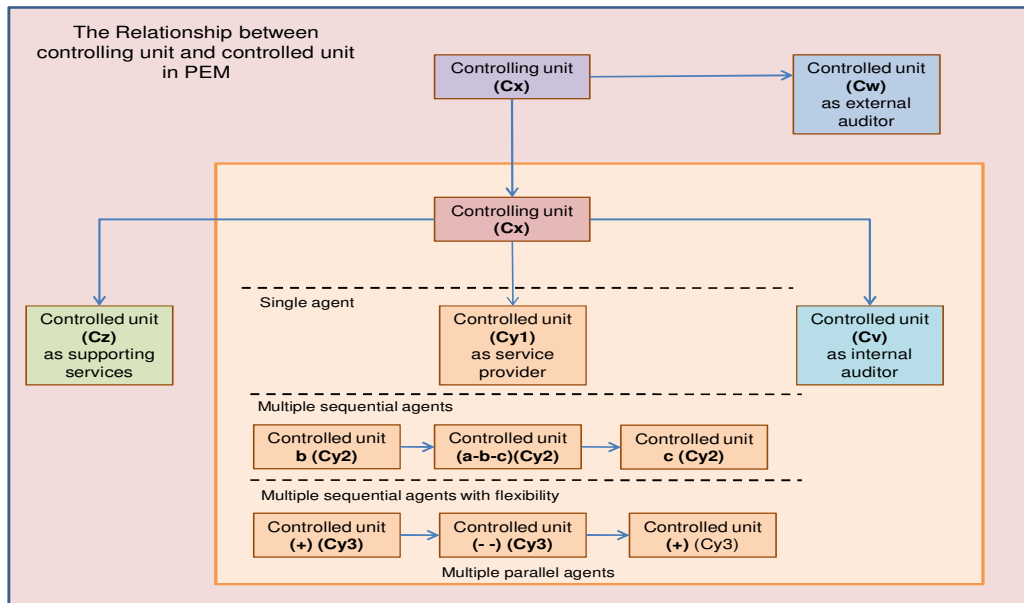
10.3.1. Basic relationships between controlling and controlled units

Basically the PEM emphasizes the relationship between Cx as principal and Cy as agent in an entity. But in practice, the relation was effected mainly by the capability, in terms of expertise and knowledge, of Cx to control and the integrity of Cy to deliver the contract. To illustrate, at the early period of PEM, a relationship was apparent between the General State Treasurer and the cash/commodity collectors. However, later the relationship changed and even evolved over time. As noted by Whitley (1999), a variety of interests and capabilities affect the development of control systems. First of all, Cx needed to have assurance that contract or services could be delivered well by Cy. Nevertheless, in many cases, not only the capability of Cy but also that of Cx were often poor. For example, at periods I and II, the Treasury had limited capability in controlling all state money at operational units. Although the Treasury was aware of its

³⁰⁶ To illustrate the relationship between parliament and executive, between president and minister, between minister and senior civil servant, between senior civil servant and spending unit manager, and between spending unit manager and operational officer.

main function, some of the state money, because of lack of capability, was unintegrated and uncontrolled. Therefore **Cx** tried to enhance its capability in order to set the controls right. However, the efforts to rebalance capabilities in order to set proper control created conflicts, and to some extent gaming occurred when setting new control arrangements between **Cx** and **Cy**, when **Cy** resisted the move. For example, when the Treasury wanted to integrate all public moneys which were managed by line ministries into a treasury single account, or when the Treasury wanted to eliminate the floating time of cash transfer that was delivered by operational banks, resistance was offered.

On the other hand, **Cy** also tried to enhance performance, capability and integrity in order to develop trust. However as the result of the principal-agent problem, to a lesser extent the imbalance occurred because **Cy** knew more than **Cx**. To illustrate: in accrual accounting, the Treasury modified financial reports based on its capability instead of keeping to the targeted time schedule as agreed by the parliament, or in performance accountability, the reports were not presented by the government to parliament. So **Cy** tended to cover up and justify its lack of performance. Based on these basic relationships between **Cx** and **Cy** and associated problems, some changes were introduced (Figure 10.8 below). The relationships were modified in the form of empowering and renegotiating roles, appointing other agents, or giving more flexibility, mainly in order to accomplish the objectives of the entity.

Figure 10.8. The relationships between controlling unit and controlled unit in the PEM

10.3.2. Empowering and renegotiating roles

When a problem arises in the relation between **Cx** and **Cy**, particularly due to poor performance of the parties, one approach was to change the roles of the parties. This means that the principal-agent relationship did not preclude the possibility of renegotiating the existing relations or contracts between **Cx** and **Cy**. According to Dermer and Lucas (1986), the relationship between controller and contreee is not a one-way exercise but it is a process of commitments and constraints. Therefore **Cx** was authorized to renew the contract based on the performance of **Cy**. Nevertheless, it probably needed initiative to empower or renegotiate the existing relationship or it sometimes emerged when conflict had already occurred. Interestingly, the role of the Ministry of Finance, whether as **Cx** or **Cy** was really significant, because the initiative to empower or renegotiate usually came from the Ministry as the central agency. Therefore the changes in the PEM depended on the active role of the Ministry of Finance, as happened in renegotiating interest revenue between the Treasury and the Central Bank or renegotiating the implementation of accrual accounting between the

Treasury and parliament. However, renegotiating new roles between parties created additional cost, as happened in the renegotiation between the Treasury and operational banks; affecting the new agreement concerning the cost of banking services. This occurred particularly when a new agreement needed more services. Therefore in empowering and renegotiating roles between **Cx** and **Cy**, a less active central agency contributed to poor PEM in terms of setting new control arrangements between **Cx** and **Cy**.

10.3.3. Appointing other agents to deliver services

The relations between **Cx** and **Cy** were modified by appointing other agents (**Cys**) within internal institution/units. Other agents within the entity were usually appointed to cover services in wider areas, to differentiate product of services, and then to compare performance between agents. For instance, treasury services were segregated by regions such as by provinces and districts/municipalities, treasury services were supported by different operational banks, the Treasury set different standard operating procedures for modern and conventional offices, or the Treasury set separate offices to pay for activities supported by foreign financing and non-foreign financing. However, this did not mean that the customer had more options for getting similar services by different providers in one location; instead the customer still had only one option of service.

Furthermore, the control by **Cx** was developed by considering the workload, efficiency, effectiveness, cost and availability of resources, such as human resources at unit level. Considering these, **Cx** separated the functions of an agent to deliver services into several agents sequentially. So then each agent had a specific responsibility and authority but was connected to other agents. However, this separation of functions or authorities without having assurance about the capability of new agents created further

problems. For example, the policy was to appoint a pre-payment verification officer at spending units but the qualified human resources in many spending units was unavailable or unsuitable, and consequently this contributed to poor verification of payment orders. So poor consideration of these capabilities led to poor control operationally and the expected outcomes of separating functions into new Cys were not accomplished. Moreover, poor choice of separation of Cys' authority created duplication of control instead of presenting effective and efficient checks and balances between Cys. As discussed earlier, similar control by different units applied, even though the segregation of functions between pre-payment order, payment order and approval payment order within units was already set.

Although since the reform, the appointment of several types of finance officers within spending units was required, before the reform all functions were delivered mainly by one finance officer. It suggests that because the number of qualified human resources varied among entities or units, certain control arrangements were set by considering existing resources. In order to enhance control when fewer human resources/agents existed, Cx as principal undertook direct control. Before the reform, spending unit managers controlled cash in hand under finance officers by periodically taking a cash inventory. Therefore control arrangements were adjusted to the availability of resources although segregating functions into several agents was meant to enhance sound internal control.

Cx not only changed the arrangements from one Cy to several Cys but also rearranged many Cys into one Cy. However, the segregation of authority to many Cys occurred more frequently than the unification of authorities into one Cy. As an example, although the establishment of the Treasury initially was aimed to unite all treasury functions under one unit, later it was separated again. This indicates that the unification

in the PEM was relatively more difficult than the establishment or appointment of new Cys. Moreover, the structure was unlikely to be reshaped when functions were reduced. To illustrate, when IT was utilized or when a certain function was shifted to other agents it was not adjusted automatically to slimmer or less organized structures, offices, or human resources within the Treasury. Although Bartlett and Ghosal (1993) note that accelerating technological change and transforming information processing creates a new organizational structure that is less bureaucratic, this rarely happened in the PEM. Therefore, over the whole system, segregating functions into several Cys, in many cases created a bigger structure and even consumed more resources.

Another option, was when a Cx as principal chose another agent outside the entity to support the delivery of services (in Figure 10.8 this other agent is referred as Cz). This was aimed at improving efficiency and effectiveness of service delivery considering that it was more efficient when some of the functions were delivered by another agent, particularly due to better expertise and professionalism. For instance, the Treasury appointed operational banks to support the treasury service office at operational level in delivering payment. During the early period of PEM, basically all cash transactions were delivered by the Treasury itself, and the appointment of Cz considered cost benefit analysis as well. However in the case of the Finance Ministry and the Central Bank, it seems that the Ministry was unable to assert fully its position in a principal-agent relationship. This occurred due to poor legal contract in the PEM, because the Treasury considered that the institutional arrangements set by the Law were already adequate. But the Public Finance Law only allows for equal relationships between fiscal authority and monetary authority. Thus this suggests that principal-agent relationships between institutions in the PEM tended to settle out unclearly, and to some extent this created problems in practice.

10.3.4. Appointing another agent as auditor

In order to ensure service delivery, **Cx** could also appoint another agent within the entity as supervisor/controller to control other agents (in Figure 10.8 such an internal controller is referred as **Cv**). The appointment of Inspectorate General at ministry level to control senior civil servants as the proxies of COO, the BPKP under the president to control line ministries, and the BPK to control the executive, all reflect this pattern. The purpose was to ensure that internally adequate control existed and that it was controlled by **Cv** as a controller not dependent on **Cy**. Moreover in the PEM, there were non-discretionary transactions that needed different control arrangements; therefore the role of internal auditor was emphasized when specific services were beyond the expertise of **Cy**. For example, the payment for subsidies was verified by the BPKP but unfortunately, in practice, these control arrangements were not settled permanently; they was applied as an ad-hoc verification based on requests from the Ministry of Finance. Furthermore, **Cx** also appointed an external auditor to audit **Cys** within an entity (in Figure 10.8 an external auditor is referred as **Cw**). Basically it was not only for **Cx**'s interest but also for other parties that had an interest in the performance of the entity. The appointment of **Cw** as an external auditor was to provide greater assurance that an entity had good control. However, in some cases, the problem surfaced particularly in matters of the segregation of roles between internal and external auditor in terms of scope, audit schedule, and the level of trust. It got worse when the capability of the external auditor was questioned. In the early stages of the reform, internal auditors were often more qualified than their counterparts in the BPK.

10.3.5. Giving agents more flexibility

The appointment of sequential agents in delivering services gave more flexibility to particular entities and supported the implementation of different control

arrangements. However, the shifting control took the performance of agents, the capability of agents, and the nature of transactions as main elements of different control arrangements. Therefore, for common transactions such as the type of discretionary transactions, control was shifted to the previous stage as *ex-ante* control in order to create more flexibility in terms of managing resources. Examples are the control by the central agency of programs and activities of the line ministry, the control of cost standards by the budget unit to spending units, the control of human resources in terms of certification procurement officer by the central agency, the public accounting standards by the public sector accounting standards committee. Within the Treasury, as illustration, the agents took control of the limits of the amount of cash advance, of the guidelines for disbursing finance officer, of the standard operation procedures to verify and approve the additional cash advance, of the chart of accounts, and of the treasury training programs. All this shows *ex-ante* control in terms of specifying authority, setting standardization, centralizing procedures and operational system, providing approval for specific transaction and delivering training. It is consistent with the previous studies concerning *ex-ante* control meant to reduce intended and unintended consequences (Merchant, 1985; Evans III *et al.*, 1986; Dermer, 1988; Whitley, 1999; Tan & Rae, 2009). Moreover, it suggests that the flexibility was temporary or permanent but certain controls were set ahead of time. Temporal flexibility particularly was given for less frequent transactions. For instance, it was applied in the approval of additional cash advance to the spending unit by the Treasury. Based on **Cy**'s performance, **Cx** set more control on poor **Cy** performers and less control on better **Cy** performers but less control itself was not a blank cheque in terms of no control at all; certain controls were applied whether before or after transaction to the targeted **Cy**. However in the PEM, **Cx** tended to control equally among **Cys** without considering the

performance of **Cy** individually or the nature of transaction. Moreover, due to poor capability of **Cx** to control, *ex-ante* control was not applied consistently in all stages of PEM.

Considering the nature of transactions besides recurrent transactions, different control arrangements were applied to different types of transactions, such as non-discretionary activities. As noted earlier, some types of activities had specific characteristics such as needing quick response, uncommon transactions, rare transactions, huge budget allocations. Therefore **Cx** applied less control before the transaction but set certain control after the transaction. It emphasizes that the control was shifted to the next stage as *ex-post* control in order to create flexibility in terms of timely execution. It is consistent with Evans III *et.al*'s (1986) opinion concerning the relation between uncertainty and *ex-post* control. To illustrate, it was applied at the approval of budget allocation for a disaster fund in one general account classification instead of a detail account classification; at the verification of non-discretionary transactions such as subsidies by the BPKP as internal auditor; at the initial recording of cash advance instead of debiting the budget allocation directly. They were verified after transactions were executed and delivered. As noted earlier, for specific transactions, due to limited expertise, resources, or time to verify huge or specific transactions, **Cy** appointed an internal auditor (**Cv**) or even an external auditor (**Cw**) to verify or audit specific transactions. However, in practice, sometimes **Cx** did not isolate clearly which transaction or activity needed to be verified or audited and did not distinguish clearly between the roles of internal and external auditor. For example, the service of BPKP as internal auditor was used based on a request from the Ministry of Finance. On the other hand the Treasury had limited resources and capabilities to verify non-discretionary transactions such as subsidies, loan utilization, social benefits, disaster funds, and other

types of transfer payments. Ad-hoc control forced both institutions to have poor planning and budgeting to support the control of specific transactions.

From the studies above, in terms of changing control arrangements, the PEM faced some challenges, such as how to improve information, increase assurance, reduce risk, balance cost and benefit, and eliminate asymmetric information. But the discussion suggests that sound performance contracts, reports and performance information, regulations, standards, human resources, training, applying IT, verification, and evaluation reduced these challenges. In Indonesia's case and probably in many countries whether developed or developing, imbalance in control arrangements between Cx and Cy occurred. Therefore, from the experience of the PEM, how to get the changing control arrangements right provides lessons for the future reform.

Based on the previous discussion, this study shows that in reform there is a changing pattern from the initial control arrangements to the new arrangements in the form of empowering the capability of principals to control or the capability of agent to deliver service because the imbalance capabilities of actors in a principal-agent relationship can exist at the initial control arrangements. The study also shows the pattern of segregation from one function to several agents and in reverse, the pattern of unification from several agents into one single actor. Although internal or external agents can be appointed to deliver services, another type of agent emerges – an agent who is appointed as a controller to other agents. All this suggests that the appointment of different type of agent can promote check and balance mechanisms in PEM system. Considering the nature of transactions and control, this study also suggests that flexibility can be given to units by setting *ex-ante* control or by giving flexibility first and setting *ex-post* control later. The flexibility that is given is not as simple as releasing supervision by the controller, as certain control mechanisms should be set first.

Although this study shows that the control arrangements between actors were less than optimal, it is relevant with the study done by Flamholtz *et al.* (1985) that showed poor control arrangements are likely due to lack of the integrated concepts of what is managed and inadequate attention to the capability of actors. Overall, similar to Dekker (2004), this study suggests that there is a wide range of control mechanisms, whether *ex-ante* and *ex-post* controls in PEM system that are used in the relationships between controller and contreee for both motivational and coordination purposes between actors. Moreover, this study argues that the control arrangements in PEM is cybernetic, as suggested by Flamholtz (1979), which means that the arrangements should consider the capability of actors to control and to be controlled and the control mechanisms should be embedded in a wider context.

10.4. Summary

This chapter has shown that the PEM essentially reflects control arrangements between controllers and contreees as principal–agent relationships. The level of control and the roles of controller and contreee changed when new approaches in form of performance-based budgeting, treasury single account, and accrual accounting were applied to the system. It is clear that the reform was aimed at providing more discretion to spending unit managers without sacrificing accountability, controlling all of the state money by the Treasury, and controlling the point of changing an asset’s ownership. However, the control arrangements expected as the consequences of the implementation of new approaches in the PEM have not been attained in practice. The chapter shows that the current achievements still reflect the struggle and tension between control and flexibility.

However, there are some patterns of changing control arrangements between principal and agent that presumably can be considered when applying new approaches.

Basically the changing control arrangements are about empowering or negotiating roles, appointing other agents, or giving more flexibility. Shifting control to other stages subsequently ensures that a controlled unit gives more flexibility to a controlling unit. It suggests that providing flexibility does not eliminate control; rather it is shifted to other stages. Although in practice, instead of effective control, poor control or double control sometimes surfaced due to poor understanding of goals, starting point, grand design and strategy, capability of related units. In addition, giving more flexibility without having adequate control made readjustment in terms of taking authority back more difficult.

CHAPTER 11

CONCLUSION AND POLICY IMPLICATIONS

11.1 Introduction

Many developing countries have applied western models, as a form of institutional isomorphism, in order to overcome the weaknesses in the PEM system. North (1990, cited in Chhotray and Stoker, 2009) considers this as a way to survive in times of social, political and economic changes and crises. However, the implementation of such approaches has generally produced mixed results in developing countries. This study has explored the Indonesian PEM reform and examined whether the models have been effective in subduing weaknesses and achieving desired improvements in the PEM system.

This study was aimed at assessing the roles of the Treasury and other key institutions in implementing PEM reform in Indonesia from 2004 to 2009. In particular, the roles of the Treasury in supporting and applying performance-based budgeting, treasury single account, and accrual accounting were examined, an area where research has been limited in the past. These contemporary approaches were introduced to promote professionalism, transparency, and accountability into PEM system by shifting control to line ministries and strengthening check and balance mechanisms. In addition, these approaches were expected to enhance operational efficiency and boost economic development more broadly. As stated in Chapter One, the reform initiatives were

spurred by internal and external pressures which led the Treasury to incorporate international best practices into the new Laws. Therefore this study essentially focused on the formalization and internalization of the contemporary approaches into practice. Research questions were set mainly to examine the implementation of reform, assess its effectiveness, and identify the factors contributing to the outcomes achieved. As presented in Chapter Four, the modified Allen *et al.*'s (2004) PEM diagnostic toolkits and Bennett's (1975) hierarchy model were used to explore the processes and the outcomes. Three treasury functions: budget execution, cash management, and accounting and reporting, provided abundant cases when analysing the PEM.

This study concludes that the PEM reform has not applied the principles of professionalism, accountability, and transparency optimally, because the key institutions have not performed their roles as expected. The study confirms that PEM, including its contemporary features, essentially reflects a set of control arrangements between actors, and reform inevitably changes these arrangements. To effectively change, reformers need to know how to get the changing control arrangements right. The study unearths the importance of completing the institutional arrangements from the integration of concepts to the issuance of hierarchical rules and regulations. Moreover, it suggests that PEM reform needs the active role of the Treasury as the main driver in enhancing awareness and in developing the capability of other key actors. The evolving balance of control and flexibility between actors will continue to remain a key issue in future public expenditure management but this study acknowledges that the trajectory of reform is affected by specific context and legacy. Overall, the study shows the importance of a concurrent linear iterative process in reform.

The study has great significance not only to scholars but also to policy makers, public sector financial managers, reform initiators, and international financial

institutions involved in studying and implementing PEM reform. The strengths of this study are that, besides comprehensively covering many facets of Indonesian PEM, it has applied principal-agent relationships as an approach to analysing the relationships between actors. The main PEM literature (Premchand, 1993; Schick 1998a) focuses more on the interactions between actors as controller and controlee relationships horizontally. The study also provides other insights in seeing and solving several paradoxes and issues in PEM and public sector reform such as the different responsiveness of *rechtsstaat* and non-*rechtsstaat* countries to reform, the essential segregation of PEM systems based on the types of *ex-ante* control and *ex-post* control, and the debate on the advantages of cash vs. accrual-based accounting. Moreover, it suggests the need for greater understanding in setting the balance between control and flexibility.

This chapter summarizes the key findings, main factors affecting the results of PEM reform, and some critical lessons for reformers. It also presents policy implications to PEM and to public sector reform. The chapter wraps up with concluding remarks including the limitations of the study and further potential research.

11.2 The PEM outcomes and processes

General findings

As stated in Chapter Four, effectiveness reflects the extent to which the outcomes fulfil the expectations, particularly in delivering treasury services and in supporting economic development. As well, effectiveness reflects the role of current practices in addressing the weaknesses that existed prior to reform. This evaluation study shows that after five years of reform, treasury management and services in Indonesia, as elaborated in Chapters Six, Seven, and Eight, has produced mixed results: in some aspects it yielded progress but others lagged behind. The quality of financial

accountability reports, in terms of comprehensiveness, validity, reliability, timeliness, and informativeness has improved, the treasury single account has been applied, and the performance indicators have been incorporated into budget documents. The results have been buttressed by the progress of the components of the process, as explored in Chapter Five. Since reform, many new and adjusted regulations have been issued and the organization has been restructured several times in order to deliver treasury functions. Training programs have been conducted to enhance the capacity of human resources; the computerized treasury system has been set up and even an integrated version was being developed. In addition, to improve service level, modern treasury offices were established at operational level. Furthermore, this study confirms that there is a positive linear correlation between the process and outcomes as demonstrated by the statistical model in Chapter Nine; the more progress of components the more satisfactory the treasury outcomes. The level of treasury services was affected by the development of human resources and computerized system. But more importantly, it suggests the significance of institutional arrangements to boost the development of human resources and computerized system.

Notwithstanding all this progress, the study also shows that the outcomes achieved have fallen short of expectations and desired objectives in various areas, including decoupling roles and empowering key actors. The efforts and outcomes for budget execution focused mostly on budget absorption without any significant changes in performance management. Even the level and the trend of budget absorption in the budget year were similar to the results prior to reform, indicating that the impact of reform on economic development at large has remained questionable. Although the Treasury has controlled all bank accounts and succeeded in applying TSA gradually, the accumulated cash balance has not been utilized optimally. Accrual-based accounting

has not been applied fully even though efforts were made to support the “cash towards accrual basis” policy. Moreover, by comparing the outcomes among treasury functions it shows different levels of satisfaction. As discussed in Chapter Nine, the outcomes for accounting and reporting were more positively appreciated by the stakeholders than for other treasury functions. On the other hand, the outcomes for budget execution were the poorest. In particular, there were some unsynchronized and conflicting rules and practices between treasury functions.

These unsynchronized and conflicting rules and practices were evident particularly in areas like the responsibility and authority of actors, the types of transactions and controls, and the time of transaction and of recording. The findings show that there was a lack of balance between the authority and the responsibility of line ministries; on the one hand, line ministries had to present the balance sheet and remain responsible for the accounting system but, on the other, the authority of line ministers was limited, as budget users and asset users only. Similarly, the unclear responsibility of finance officers and cash holders within line ministries occurred whether they were primarily responsible to line minister, the Treasurer or the BPK. There was a lack of ownership in cash planning between the Treasury and line ministries. In addition, similar mechanisms in billing, payment approval, and payment were set for different types of financial transactions, but in certain cases, missing or duplicated control occurred. In consideration of recognizing and recording transactions, although the ownership of assets shifted after the issuance of payment requests, the expenses were recorded after the payments were approved by the Treasury; similarly, the revenues were recorded after the money was received into the GST account at the Central Bank even though the cash had been collected by finance officers/cash holders

at an operational level earlier. All these practices reflect less than optimal results of PEM reform.

Broadly speaking, a set of five major factors contributed to less effective PEM reform. These are: lack of understanding about the function of entity and its boundary, the roles and relationships between actors, the nature of financial transactions, the connectedness between functions in PEM and in reform, and change management. This study asserts that the PEM reform lacked consideration of the functions of entity and its boundary. Poor consideration about the functions of entity contributed to lack of responsibility and accountability of actors within an entity, as happened in the imbalance between the responsibility and the authority of line ministers and in recognizing and recording the changing of assets and liabilities by the Treasury. Consequently, the accountability, as one of the principles of reform, could not be ensured as intended. The PEM literature (Chu & Hemming, 1991; Premchand, 1993; Schick, 1998a; Campo & Tommasi 1999; Allen & Tommasi 2001) mainly segregates the roles of finance minister and line ministers without explaining clearly the position of the line minister in an entity. They do not pinpoint the decoupling roles between CEO, CFO or COO in an entity and their following consequences. Therefore this study suggests that PEM reform needs to consider the essence and functions of entity, boundary and its consequences. The concept of entity is essential, particularly to set the clear responsibilities of key actors within an entity and the firm demarcation in recognizing transactions which leads to shift assets' ownership between entities.

Less optimal outcomes were also caused by lack of detailed specification of the roles of actors in the PEM. This occurred not only between CFO and COO horizontally, as noted earlier, but also between the roles and the interactions of their proxies vertically. Given that the PEM system is a huge bureaucracy, basically it presents a

hierarchy of roles among actors. In addition, it was affected by a lack of understanding about the relationship between the CFO on the one hand and finance managers, finance officers, and cash holders within line ministries on the other; functionally they underpinned the PEM system. Although previous PEM studies (Premchand, 1993; Schick, 1998a) highlighted the decoupling as a structural segregation between controller and controlee, in practice the PEM presented a set of principal-agent relationships between actors as well. Thus, the PEM reflected a combination of relationships between structural, hierarchical, and functional actors. Lack of detailed specification of the roles of actors hierarchically and functionally contributed to poor control of the Treasury to finance managers, finance officers and cash holders. Consequently, the principle of professionalism could not be attained well in the PEM. So this study suggests the importance of understanding the structural, hierarchical, and functional actors in PEM in order to define their detailed roles and interactions.

Besides the actors, the results were affected by the types of financial transactions which were managed. What is managed in PEM should be identified clearly. As a matter of fact, in practice there were different types of financial transactions, such as recurrent or non-recurrent, planned or unplanned, small or large amounts of money, and those that are easy or uneasy to verify (Table 11.1 below). However, the finding shows that the reform was centred on planned and recurrent transactions within line ministries. Poor identification of transactions has led to poor management. PEM literature (Premchand, 1993; Campo & Tommasi, 1999; Allen & Tommasi, 2001) recognizes these different types of financial transactions. Nevertheless, the literature accentuates the segregation at the stage of budget allocation only; it does not then explain the implication of separation at the stage of budget execution. This issue has not been accommodated adequately in the PEM and contributed to lack of transparency in the

form of poor mechanisms of non-discretionary financial transactions. In addition, it got worse due to poor connection between the nature of financial transactions and the capability of actors. Therefore this study suggests that it is essential to understand the nature of financial transactions and management in developing the PEM system.

Table 11.1. The Nature of Transactions in Public Expenditure Management

Type of activity	Nature of activity		Budget allocation	Urgency	Unit responsibility
Operational expenditure, capital expenditure, non-tax revenue	Operational	Planned	Small to moderate	Low to moderate	Discretionary transaction under finance officer at spending unit
Capital expenditure, non-tax revenue, social benefit, ministerial reserve fund	Non operational	Planned and unplanned	Small to moderate	Moderate to high	Discretionary transaction under finance manager at ministry level
Tax revenue, non-tax revenue, transfer payment	Operational	Planned	Small to large	Low to moderate	Non-discretionary transaction under finance manager at finance ministry
Debt payment, subsidy, social benefit, other transfer payments, state reserve fund	Non operational	Planned and unplanned	Moderate to large	Moderate to high	Non-discretionary transaction under the Treasury

Source: Adapted from the MOF regulations and publications; Hofstede 1981

Moreover, the results fell short of expectations due to lack of connectedness between functions in the PEM as reflected in the segregated efforts when adopting contemporary approaches. Because the PEM reform adopted the contemporary features from different PEM systems to overcome the weaknesses in specific treasury functions, all needed to be synchronized to the local context. In addition, lack of consideration about the connectedness between treasury functions and between sub-systems in the PEM has led the Treasury to focus on contemporary practice and neglect other related aspects; in practice accrual accounting nullified the importance of cash basis accounting. Although PEM literature suggests the advantages of accrual-based accounting, others (Barton, 1999; Pallot 2003; Christiaens & Rommel, 2008) have

different opinions. As a consequence, the ultimate goals of PEM reform which need synergy among treasury functions have not been achieved. Therefore, in consideration of PEM as a system, the study suggests that PEM reform should maintain the connectedness between functions and between sub-systems.

Furthermore, lack of change management strategy and poor implementation of change management during reform contributed to mixed results; particularly as elaborated in Chapter Ten. It is obvious that there was a gap between the western models and the existing practices prior to reform. However, at the initial stage of reform the assessment was centred more on comparing the existing practices with the contemporary ones than assessing the capability of actors to implement reform. Consequently, the reform failed to empower key players systematically; the findings show that training programs to line ministries were not prioritized until recently. Moreover, the expected goals could not be documented clearly as to grand design and strategies. This caused poor milestones of reform and even affected other actors' motivation and desire. In addition, as presented in Chapter Five, this study shows other factors, such as leadership, IT utilization and banking services, and evaluation, affected the PEM reform.

Overall, the study suggests that the Treasury and other institutions have failed to act as predicted by decoupling roles between actors. The PEM reform focused on the empowerment of Treasury internally instead of building the capabilities of related institutions. The capability of line ministries was poor and the treasury agents have not been utilized optimally. The findings show that the line ministries were generally passive to reform. Giving discretion to line ministries without empowerment yielded unfavourable results. In addition, absence of comprehensive strategies, due to lack of integrated concepts, contributed to poor empowerment efforts. Thus, the objective of

reform, to create check and balance mechanism between the Treasury and line ministries has not been met. This study concludes that PEM reform is not about the decreasing authority of the Treasury on the one hand and the discretion given to line ministries on the other; but it is how the Treasury sets and maintains overall control arrangements as a system. More importantly, it is how the Treasury enables other actors so that the Treasury can focus on other functions which have not been explored well before. Therefore, the role of the Treasury, as a change agent, is really significant during reform, not only in delivering treasury services, but also in issuing treasury regulations covering new institutional arrangements, and in training related actors including finance officers within line ministries. The roles of other institutions in PEM will depend on the active role of the Treasury.

In general, it is obvious from the study that the levels of accountability, which are political, operational, and fiduciary accountabilities, as presented in Chapter Three, do not cover the accountabilities of all players in the PEM system; particularly, if the scope of fiduciary accountability is defined narrowly as the accountability of cash holders only. In consideration of the sequential stages in PEM, from authorization, commitment, verification and approval, to payment, the PEM reform mainly failed in setting the accountability of CFO and proxies for the approval of financial transactions. As noted earlier, this study confirms the important stage of approval within an entity, which leads to change assets and liabilities of the entity. Therefore, this study recalls another facet of accountability in PEM which is the stewardship of treasury³⁰⁷, particularly in approving financial transactions. Although the Treasury supports political accountability in the form of financial accountability reports and operational

³⁰⁷ As discussed in Chapter Seven, a *comptable* should be interpreted not only as a cash holder but also more importantly as approver who should account for this discretion. The function of cash holder can be delegated to other officers or institutions as treasury agents but the approval still belongs to the Treasurer and proxies as the financial controller of last-resort.

accountability in the form of managerial reports and supervises fiduciary accountability of cash holders, it is evident that these accountabilities are insufficient to ensure the accountability of the Treasury. Instead, the Treasury should account for approval. Even the BPK, as supreme audit institution, should focus on this accountability instead of controlling cash holders. This type of accountability is expected to boost the implementation of accrual accounting and the management of non-discretionary financial transactions in the PEM system. Recent IT development can buttress the Treasury to centralize electronic approval and to control proxies.

Critical lessons

In the PEM literature and the experience of Indonesian PEM reform, there are several lessons which practitioners should bear in mind while designing a PEM system and applying models. These are:

- PEM is an integration of concepts; the concepts of the entity and its boundary, the types of financial transactions, the actors and interactions are essential in designing a PEM system. These concepts answer “what, where, who, and how” of PEM and all these simultaneously construct a PEM system. Therefore the implementation of contemporary approaches should be seen in this context; decoupling efforts in implementation to overcome the weaknesses in specific treasury function lead to negating other aspects and consequently presenting mixed results. It is clear that PEM should be seen as a set of interactions between actors in managing different types of financial transactions within an entity.
- PEM is a set of control arrangements between actors structurally, hierarchically, and functionally. In the light of the importance of the roles of players in PEM, this study unearths the web of interactions between actors in running a PEM

system which is more complex than the horizontal relationships between controller and controllee alone. In general, PEM is the main responsibility of the CFO. However, in an entity the responsibility of the CFO can be delegated to finance managers or officers functionally, particularly in lifting the flexibility within a unit. The discretion and segregation can vary but it needs to present sound check and balance mechanisms. Thus, the finance officers are essentially appointed to assist CFO within an entity. Similarly, treasury agents are appointed to deliver treasury functions, especially when the expertise is beyond the capability of the CFO. These appointments should make the PEM system efficient and effective. This study suggests that the difference between PEM systems is not simply the difference between the types of control such as *ex-ante* and *ex-post* control, as identified in the literature (Chu & Hemming, 1991; Campo & Tommasi, 1999; Allen & Tommasi, 2001; Lienert, 2005) but it is how to combine control arrangements between actors in order to have an efficient and effective PEM system. Therefore the decision to centralize or decentralize the PEM system should be seen in this context as well.

- PEM reform essentially involves changing control arrangements between actors. This study affirms that the PEM system is not a static structure but is living and evolving, and reform accelerates the changes. As a consequence, it suggests the importance of assessment, empowerment, and evaluation of players in reform. PEM reform should consider the capability of principal and agents in a system. Thus, the PEM system should be adjusted particularly in view of the capability of the CFO to control, the capability of CFO proxies or agents to exercise discretion, and other related circumstances. However, to effectively change it needs a clear destination; institutional isomorphism as an approach can provide

the coherent goals. Changes in terms of layering and displacing, as identified by Streeck and Thelen (cited in Painter and Peters, 2010) can lead to loss of orientation in developing a PEM system. Therefore reformers need to know how to get the changing control arrangements right.

In general, like previous studies concerning the approaches to public sector reform (e.g. a two-pronged approach by the World Bank 1998; get the basics right by Schick 1998; a torto-hare approach of Campo and Tommasi 1999; a platform approach by Brooke 2003; an evolutionary approach by Peterson 2007 or a transformative approach by Christensed and Laegreid 2007) this study confirms that PEM reform should be applied gradually. However, different from a torto-hare approach, this study suggests that reform should be pillared by balancing the capability of key actors. Unlike a sequential vertical control approach as suggested by Schick in developing PEM control, the existing control arrangements in a system should be accommodated as a starting point. In addition, this study affirms that the roles of finance ministry are more critical in reform than line ministries because the institution is also responsible to empower line ministries in terms of awareness, skills and knowledge; it differs from a two-pronged approach. More importantly, effective reform needs to consider PEM as a compilation of concepts, reform as a process, and the connectedness between functions in the PEM system and in reform.

11.3 Policy Implications

Given that the PEM reform faced problems in completing the institutional arrangements, maintaining the connectedness between functions, and building the capability of all actors in all agencies, the following policy implications are relevant:

- A modified PEM framework (see Appendix 11) is appropriate to boost the institutional arrangements and the connectedness between treasury functions. It

shows the detailed roles of actors within an entity. Reformers and reform advisors should segregate clearly the roles and relationships between CEO, CFO, and COOs within an entity, and strengthen the interactions between the proxies of CFO and COO vertically. The model clarifies the relationships between CFO and finance managers, finance officers, cash holders as functional relationships. In addition, it covers the nature of financial transactions which leads to the decoupling between discretionary and non-discretionary financial transactions and the segregation between actors. The discretion granted to officers or institutions are based on their capabilities. This accommodates the integration between performance and financial management in the public sector and the synergy between accrual and cash basis accounting in PEM system. Overall, the model shows the connectedness between treasury functions as an integrated PEM system. It is expected to buttress the consistent and coherent institutional arrangements into the hierarchy of regulations.

- It is important to get the changing control arrangements right. There are a number of caveats (see Appendix 12) which should be considered by the finance ministry as a central agency and by policy makers to overcome unequal empowerment of key actors and poor consideration about the connectedness between functions in PEM reform. These caveats cover three main issues concerning the importance of assessment and empowerment of the capability of actors, of managing agents within PEM system, and of giving flexibility direct to actors in a system. These acknowledge the factors of various capabilities of actors, different types of actors as agents, and the evolving balance of flexibility and capability. Therefore this study suggests that the flexibility be set after certain controls are shifted to other stages in a system.

- A concurrent linear iterative approach is proposed particularly when reform in a *rechtsstaat* country applies several changes and they are applied gradually. Reformers and reform advisors should realize that there is the huge challenge of a *rechtsstaat* country in formalizing reform initiatives into the hierarchy of regulations. However, this study concludes that the enactment of law only, identified by Painter and Peters (2010) as a path-breaking way, is not adequate to implement the reform initiatives. In addition, jumping into the level of service and the development of a computerized system is evidently unstable and risky. The formalization of reform initiatives needs the understanding of the connectedness and detailed concepts although the implementation should be adjusted taking into account the capability of actors. Consequently, the formalization takes time linearly and it has to be adjusted iteratively. It makes *rechtsstaat* countries slow to respond to changes. Therefore the study suggests that a concurrent linear iterative process is important to deliver reform initiatives in such contexts.

11.4 Concluding Remarks

In conclusion, the study confirms that adopting the western model into PEM can be coercively isomorphic. Whichever the type of institutional isomorphism, this study acknowledges that reform will be applied gradually. But, when the proposed initiatives are incorporated into law and documented into grand design, it has advantages in terms of setting the expected goals and supports the gradual implementation in moving towards the coherent points. However, the study suggests that attention needs to be paid to the goals in terms of the boundary of the entity, the roles of the Treasury, the nature of financial transactions, and the delegation of authority from the Treasury to other finance officers or institutions. More importantly, it needs the understanding of PEM as

an integration of concepts, reform as a process, and the connectedness between functions in PEM and in reform. Poor understanding of the concepts and the western context when adopting institutional isomorphism can lead to mixed results. These affect the intention to internalize the good governance principles in terms of transparency, accountability, and professionalism into practice. It seems that an indigenous developing country model as identified by McCourt (2001) will be difficult to find. However, the discourse of an indigenous developing country model is still open but it needs the country's initiatives not only to adopt but also importantly to create new approaches in line with specific local context. It suggests the importance of the spirit of reform. As the critical success factors for the continuity of reform, visionary leaders, reform teams or transformation unit are essential.

In the light of the current trends and progress, several possible future trajectories of the PEM reform are likely in Indonesia. First, inertia probably would take hold, because grand design and strategies were unavailable and even some stakeholders consider that the reform goals have already been accomplished. Given such a situation, 'business as usual' will take over the reform. It will be followed by another reactive change in form of displacing or layering. Another reform will be initiated in response to major pressures or crisis. As a second trajectory, when the grand design and strategies are available, the reform will continue and treasury services will improve. But the achievements will be limited because the Treasury will continue to struggle in interpreting the Laws into operational practice; unsynchronized and conflicting concepts will make the pace of reform slow. It can be followed by the first trajectory again or positively shift to the third trajectory as happened when the reform initiatives were launched. Another trajectory is proposing the amendment of the Law which reflects a comprehensive and consistent conceptual framework although probably it can be

another compromise when the awareness and the spirit of other stakeholders are less supportive. Different actions can lead to different trajectories. Therefore the future can be as a path-dependent, a path-breaking, or a combination of both ways. It is argued that legacy effects, as identified by Painter and Peters (2010), are likely to continue particularly when there is poor awareness of key actors to reform.

The study represents a preliminary assessment of the PEM in Indonesia after five years of the reform. It has explored the roles of the Treasury in implementing PEM reform but suffers from obvious limitations in terms of scope and methods applied. Other treasury functions such as debt management and assets management were not covered. Moreover, even though certain triangulations in terms of approaches, techniques, and sources were applied, the study was conducted at one period of time only. Several groups of stakeholders were involved but the number of participants was limited. Furthermore, although this study tried to develop and measure various indicators, many other essential indicators have not been included. In addition, personal biases may have come into play although the researcher tried to be an objective facilitator; the assumption of interpretations was affected by the knowledge, values, and experience of the researcher.

Future research might be directed toward exploring further cash management such as the connection between treasury unit and debt management unit in managing short-term cash mismatch. The effectiveness of treasury single account in huge regions and the significance of e-treasury in controlling public money have not been covered. All these need to consider further not only financial but also non-financial costs and benefits considering the function of public expenditure management. Furthermore, how to combine financial and performance information including its arrangements remains unexplored in this study. Moreover, the ownership and

accountability within public entity and the implementation of accrual or commitment budgeting, particularly in providing more flexibility, are other potential areas for future studies. This study has provided an initial basis for further evaluation research and comparative studies.

APPENDIX 1 THE HISTORY OF PEM REFORM



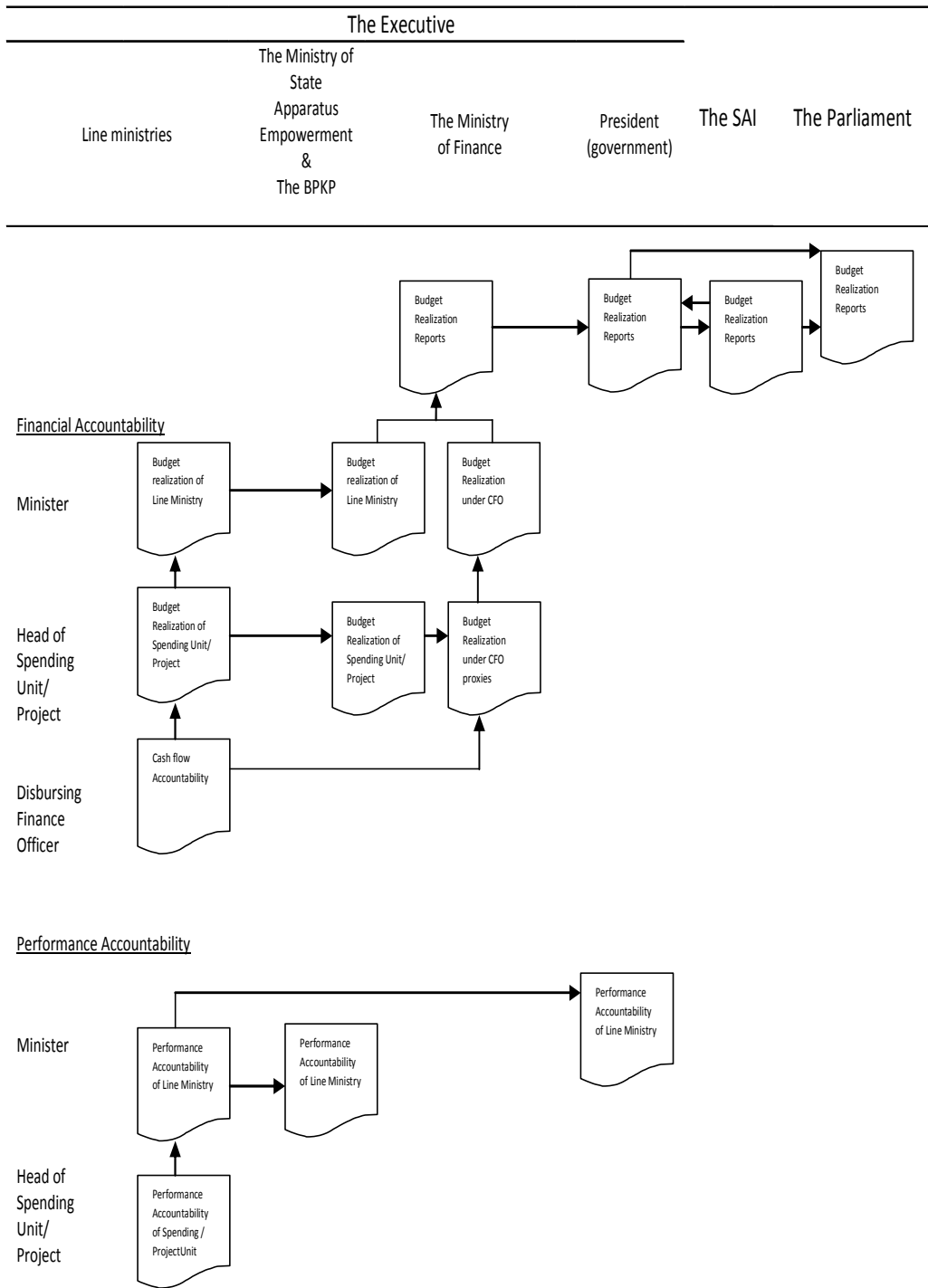
Source: adapted from MoF 2001; 2002a, Interview data TR141

APPENDIX 2 THE CHANGES BETWEEN THE BILL AND THE LAW OF PUBLIC TREASURY

The Bill of Public Treasury 21 Mei 2001	The Law of Public Treasury 14 January 2004
<p><u>Budget execution:</u></p> <ul style="list-style-type: none"> • Budget classification: organization, function, and economic classification • Finance officers at ministry: cash receipt officer, petty cash holder, commitment officer • Petty cash holder is under the proxy of COO and appointed by minister 	<p><u>Budget execution:</u></p> <ul style="list-style-type: none"> • Budget classification: unit organization, function, program, activity, and economic classification • Finance officers at ministry: cash receipt officer, (petty) cash payment officer, receivable and payable officer, commitment officer, verification and payment order officer, accounting officer • Cash receipt officer and cash payment officer as functional officer
<p><u>Cash management:</u></p> <ul style="list-style-type: none"> • Relation between the government and the central bank: the policy of central bank that is directly at the expense of state budget has to be consulted and approved by the government • Finance minister opens government state cash accounts at the central bank and/ other financial institutions. Line minister opens bank account after approved by general treasurer. All bank accounts are reported to the SAI 	<p><u>Cash management:</u></p> <ul style="list-style-type: none"> • Relation between the government and the central bank: the government and the central bank coordinate in setting and implementing fiscal and monetary policy • Finance minister opens the general state cash account at the central bank and opens the receipt bank account and the disbursement bank account at operational banks
<p><u>Accountability:</u></p> <ul style="list-style-type: none"> • Petty cash holder to minister, head of unit (as COO proxy) to minister, minister to president • Proxy of general treasurer to finance minister (as general treasurer), finance minister to president • Proxy of general treasurer to the supreme audit institution 	<p><u>Accountability:</u></p> <ul style="list-style-type: none"> • Head of unit (as COO proxy) to minister, minister to president • Cash receipt/ payment officer to proxy of general treasurer functionally, proxy of general treasurer to finance minister (as general treasurer), finance minister to president • Cash receipt/ payment officer to the supreme audit institution
<p><u>Accounting and reporting:</u></p> <ul style="list-style-type: none"> • Accounting system is set by finance minister and approved by the SAI • Minister is responsible to present budget realization and balance sheet of ministry • President present budget realization enclosed by balance sheet, SoE's and other agency's financial reports to parliament soon after the end of budget year. The reports are presented to the SAI as well. • President presents the bill of budget realization and balance sheet to parliament after audited by the SAI at least 12 months after the end of budget year. 	<p><u>Accounting and reporting:</u></p> <ul style="list-style-type: none"> • The presentation of the financial accountability reports is based on public accounting standards issued by independent public accounting standards committee. The standards are approved by the SAI • Minister is responsible to present financial accountability reports in terms of budget realization, balance sheet, notes to the reports, and enclosed by the report of public service agency under ministry. Finance minister as general treasurer is responsible to present cash-flow reports • President presents the bill of financial accountability reports to parliament after audited by the SAI at least 6 months after the end of budget year. • Accrual accounting will be implemented at least in the next 5 years after the issuance of law.

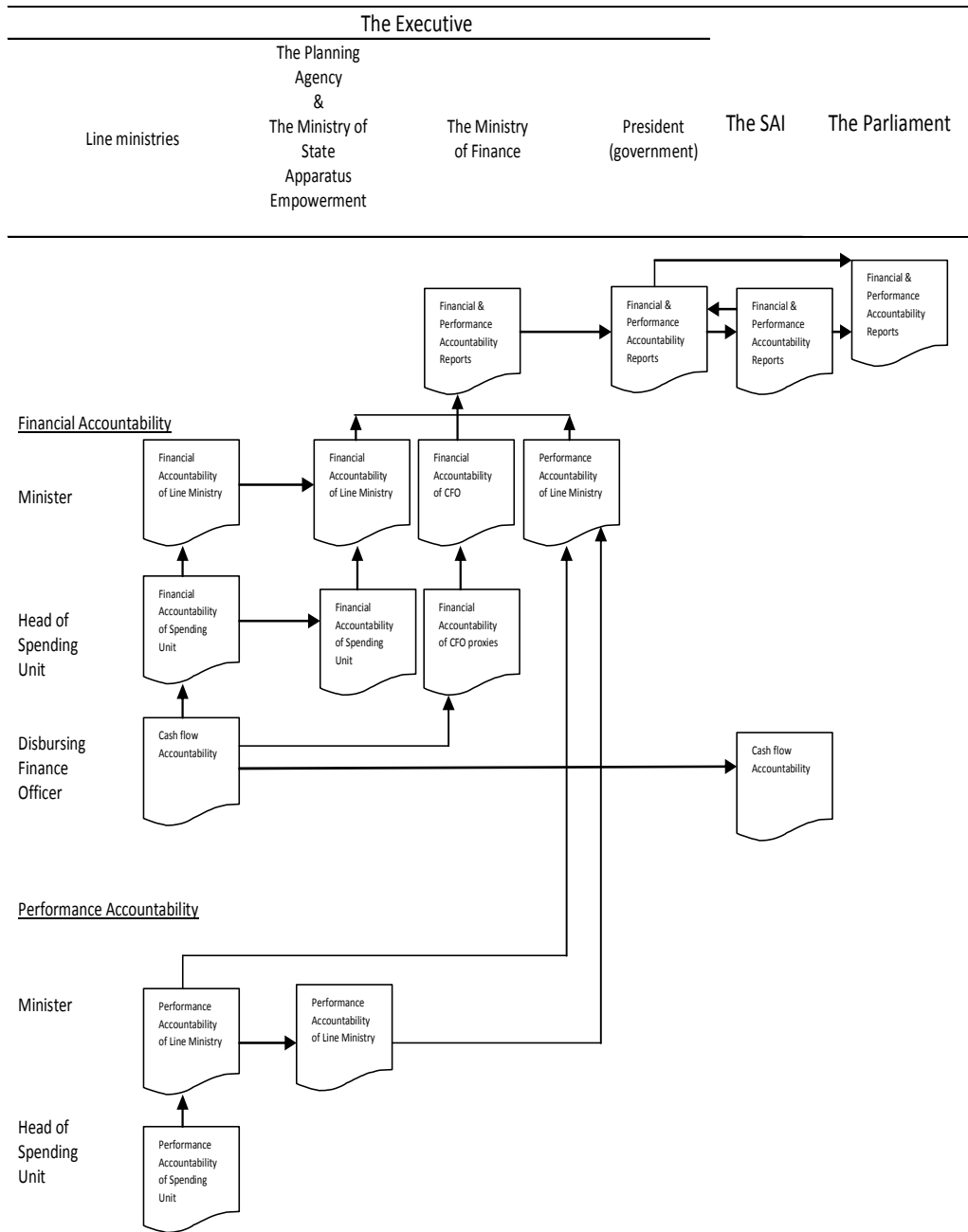
Source: adapted from MoF 2001; 2003a; 2004a

APPENDIX 3 FINANCIAL AND PERFORMANCE ACCOUNTABILITY FLOW (before the reform)



Source: adapted from the SoS, 1999; the MoF, 1995; 2002c

APPENDIX 4 FINANCIAL AND PERFORMANCE ACCOUNTABILITY FLOW (after the reform)



Source: adapted from the MoF, 2006a

APPENDIX 5 LOGICAL FRAMEWORK MATRIX OF RESEARCH EVALUATION OF PEM REFORM

No.	Narrative Summary	Objectively Verifiable Indicators	Means of Verification I = interviews, FG = focus group discussion Q = questionnaires, O = observation, and DE = document evidence					Risks and Assumptions
			I	FG	O	Q	DE	
1.	<p><u>Impacts:</u></p> <ul style="list-style-type: none"> • Sustain economic growth (Y) • Achieve MDGs • Improve transparency, accountability and professionalism 	<ul style="list-style-type: none"> • Support programs and activities • Increase budget flexibility • Reduce idle cash • Utilize cash balance • Achieve unqualified opinion • Implement accrual accounting 	X				X	No fiscal shocks
2.	<p><u>Outcomes:</u></p> <ul style="list-style-type: none"> • Accomplish the goals of programs & activities • Absorb budget allocation • Empower authority of line ministries and lessen treasury control • Reduce budget adjustment/virement • Support budget execution during budget year • Absorb fiscal shock • Reduce cash at spending units • Reduce cash at Treasury Service Offices • Increase cash at Central Treasury Office 	<ul style="list-style-type: none"> • The perspectives of line ministries • The percentage of budget absorption • The changing trends (percentage) of budget absorption during last 4 years • The perspectives of line ministries and the State Treasury • The changing/adjusting rules and regulations • The number of budget adjustment/virement proposals • The changing trends (number) of budget adjustment/virement proposal during last 4 years • The number of budget dispensations • The changing trends (number) of budget dispensations during last 4 years • The process of budget dispensation approval • The timeliness of budget document approval • The appointment of proxy COOs and disbursing financial officers in the beginning of budget year • The flexibility and accountability of budget execution in the end of budget year • The speed of budget adjustment • The control of spending units' accounts • The changing trends (amount) of cash balance at spending units • The flexibility of petty cash management • The changing trends (number) of additional petty cash proposals • The control of disbursing finance officers • The timeliness, accuracy and compliance of petty cash reports • The changing trends (amount) of cash balance at Treasury Service Offices • The implementation of treasury single account 	X			X		No fiscal shocks
			X	X		X	X	
			X	X		X		
			X	X		X		
			X				X	
			X		X	X	X	
			X	X	X	X	X	
			X	X		X	X	
			X	X		X	X	
			X	X		X	X	
			X	X		X	X	
			X	X		X	X	
			X	X		X	X	
			X	X		X	X	
			X	X		X	X	
			X	X		X	X	
			X	X		X	X	
			X	X		X	X	

No.	Narrative Summary	Objectively Verifiable Indicators	Means of Verification I = interviews, FG = focus group discussion Q = questionnaires, O = observation, and DE = document evidence					Risks Assumptions
			I	FG	O	Q	DE	
	<ul style="list-style-type: none"> Receive cash remuneration Reduce expenses of cash borrowing Improve the quality of Treasury accountability reports Improve the quality of line ministries accountability reports Compile and present the State Financial Accountability Reports Enhance the readiness of the State Treasury to implement accrual accounting Enhance the readiness of line ministries to implement accrual accounting 	<ul style="list-style-type: none"> The changing trends (amount) of cash balance at Central Treasury Office The availability of interest income The accuracy of cash planning The cost of cash borrowing The validity, accuracy and timeliness of treasury accountability reports at operational level The validity, accuracy and timeliness of treasury accountability reports at regional level The validity, accuracy and timeliness of treasury accountability reports at central level The following-up of audit findings The validity, accuracy and timeliness of spending units' accountability reports The validity, accuracy and timeliness of line ministries' accountability reports at regional level The validity, accuracy and timeliness of line ministries' accountability reports at central level The following up of audits findings The usefulness of reports for managerial decision making The timeliness of State Financial Accountability Reports The achievement of cash towards accrual accounting system at the State treasury The issuance of accrual accounting standards The achievement of cash towards accrual accounting system at line ministries The adequacy of accounting skills 	X	X		X	X	
3.	<p><u>Intermediate outcomes:</u></p> <ul style="list-style-type: none"> Treasury services at central level Treasury services at regional level Treasury services at operational level 	<ul style="list-style-type: none"> The implementation of grand design and strategies The issuance and adjustment of rules and regulations The new organization structure of the State Treasury The knowledge, attitude, skills of the State Treasury staff The knowledge, attitude, skills of spending units staff The development of integrated computerized treasury system The coordination and cooperation between institutions 	X	X		X	X	No fiscal shocks

No.	Narrative Summary	Objectively Verifiable Indicators	Means of Verification I = interviews, FG = focus group discussion Q = questionnaires, O = observation, and DE = document evidence					Risks and Assumptions
			I	FG	O	Q	DE	
4.	<p><u>Activities:</u></p> <ul style="list-style-type: none"> • Prepare grand design and strategies • Issue new rules and regulations • Adjust organization structure • Enhance knowledge and skills of disbursing financial officers at spending units • Enhance knowledge and skills of treasury staff • Develop integrated computerized system • Increase coordination and cooperation between institutions and within the State Treasury 	<ul style="list-style-type: none"> • The availability of grand design and strategies document • The clarity of strategies • The accessibility of document • The implementation of strategies • The issuance of rules and regulations • The adequacy of rules and regulations • The clarity of rules and regulations • The accessibility of rules and regulations • The capability of organization structure to support treasury functions • The capability of IT to support treasury functions • The readiness and willingness of line ministries to change and learn • The development of internal/managerial control • The usefulness of socialization and dissemination • The usefulness of training programs • The changing behaviors and practices of the State Treasury • The user friendliness of computerized system • The flexibility to be adjusted • The ease of maintenance • The integration of computerized treasury system • The rating of vertical coordination and cooperation • The rating of horizontal coordination and cooperation • The velocity of feedback 	X	X		X	X	No fiscal shocks
			X	X		X	X	

APPENDIX 6 FIELDWORK SCHEDULE

No.	Activity	2009					
		April	May	June	July	August	Sept
1.	Preparation: survey permit letter, correspondence address of participants, testing and refining questions/ questionnaires						
2.	Interviews						
	• Open-ended interviews						
	• FRMC members						
	• Director General of Treasury (former)						
	• Inspector General						
	• Semi-structured interviews						
	• Senior officials of DG Treasury						
	• Senior officials of line ministries						
	• Senior officials of fiscal agents						
	• Senior official of Ministry of ICT						
	• Representatives of providers						
	• Members of parliament						
	• Prime auditor of SAI						
3.	Questionnaires						
	• E-mail questionnaires						
	• Staff of DG Treasury						
	• Postal questionnaires						
	• Regional officials of DG Treasury						
	• Heads of spending units						
	• Disbursing financial officers						
	• Providers of goods and services						
	• On-the spot questionnaires						
	• Staff of DG Treasury						
4.	Observations						
5.	Focus group discussions						
5.	Secondary data						
6.	Monitoring, collecting, and coding data						
7.	Refining data and seminar						

APPENDIX 7 INTERVIEWS – LIST OF QUESTIONS

FOR ECHELON I AND FMRC MEMBERS

1. Since PEM reform was launched in 2003, there have been some significant changes in treasury management system, particularly in areas like budget execution, cash management, and accounting and reporting.
 - a. Are you satisfied with the current progress of treasury management reform? (If yes, can you indicate the areas where progress is satisfactory? Why are some aspects of reform not implemented on target? What barriers are faced by the State Treasury in implementing reform strategies?) To what extent do you think the current outcomes of treasury management reform have accomplished the goals set? (In your view, what are obstacles which hamper the achievement of reform outcomes?)
 - b. To what extent are current rules, regulations, and business processes adequate to manage new treasury system?
2. The new Laws stipulate that the State Treasurer as chief financial officer and line ministers as chief operational officers. The decoupling role is expected to enhance checks and balances and support line ministries in achieving their goals of programs and activities.
 - a. How effective are the current practices of the State Treasury in treasury management function? (Do the staff within the State Treasury have the necessary knowledge, skills and qualifications to support the State Treasury roles, functions and services? What are the problems faced by the State Treasury in conducting its roles?)
 - b. To what extent has the State Treasury changed its control of line ministries/spending units in each treasury function area since reform? (In your view, how effective is the internal/managerial control developed by line ministries/spending units since they have been given more authority to manage their resources?)
 - c. How effective are the current practices of line ministries/spending units in executing budget allocation? (What are the major factors that hamper the budget execution? What kinds of policies have been taken to improve budget execution system? Why do some problems still persist?) To what extent and how does the current budget execution system help absorb fiscal shocks?
3. The State Treasury is expected to be more professional in managing state cash as mandated by the State Treasury law.
 - a. In your view, how effective is the current cash management system? (What kinds of policies have been taken to improve cash management system? What are the problems faced by the State Treasury in cash management? Why do some problems still persist?)
 - b. How have fiscal agents responded to the treasury management reform so far? (How satisfied are you with the role of central bank and commercial banks as fiscal agents in supporting cash management?)
 - c. Has there been any action to introduce e-government to the State Treasury system? (What would be the implications of doing so? What would be the barriers to implement e-money and internet banking services in government financial transactions?)
4. During 2004 - 2007 periods, on several occasions the Supreme Audit Institution (SAI) gave disclaimer opinions on the Financial Accountability reports presented by Government.
 - a. In your view, how effective is the current accounting and reporting system? (To what extent has the quality e.g. comprehensiveness, reliability, validity, timeliness of treasury's financial accountability reports improved in recent years? What kinds of policies have been taken to improve accounting and reporting system? To what extent has the State Treasury followed up the audit findings and recommendations made by the Supreme Audit Institution? What are the problems faced by the State Treasury in this regards? Why do some problems still persist?)
 - b. How satisfied are you with the financial accountability of line ministries since reform? (What specific efforts have been made by the State Treasury to enhance the quality of line ministries' financial accountability reports?)

- c. What measures have been taken by the State Treasury in order to implement accrual accounting in government? (What is the current progress in terms of the implementation? What are the problems faced by the State Treasury in implementing accrual accounting?)
5. In the White Paper concerning the public financial management reform in Indonesia, the importance of financial management information system has been highlighted. Since 2004 the State Treasury has been developing the integrated and computerized treasury system.
 - a. What kinds of policies have been taken to develop integrated and computerized system? What is the progress made towards the development of the system?
 - b. What are the major obstacles which hamper the development of the system?
6. What additional policies and steps are necessary to improve the effectiveness and to accelerate the implementation of treasury management reform?

FOR THE STATE TREASURY OFFICIALS

1. Since PEM reform was launched in 2003, there have been some significant changes in treasury management system particularly in areas like budget execution, cash management, and accounting and reporting.
 - a. Are you satisfied with the current progress of treasury management reform compared with the reform strategies? (If yes, can you indicate the areas where progress is satisfactory? If not, can you explain the reasons for your dissatisfactions?) To what extent do you think the current outcomes of treasury management reform have accomplished the goals set? (In your view, what are obstacles which hamper the achievement of reform outcomes?)
 - b. To what extent are current rules, regulations and business processes adequate to manage treasury system? (Are there any difficulties to issue new rules and regulations? If yes, can you explain the difficulties? How do you harmonize rules, regulations, and business processes between treasury functions?)
2. The new Laws stipulate the State Treasurer as chief financial officer and line ministries as chief operational officers. The decoupling is expected to enhance check and balances and support line ministries in achieving their goals of programs and activities.
 - a. How effective are the current practices of the State Treasury in treasury management function? (To what extent does the current organization structure of the State Treasury support the State Treasury roles, functions and services? Do the staff within the State Treasury have the necessary knowledge, skills and qualifications to support the State Treasury roles, functions and services? What are the problems faced by the State Treasury in conducting its roles?)
 - b. To what extent has the State Treasury changed its control of line ministries/spending units in each treasury function area since reform? (In your view, how effective is the internal/managerial control developed by line ministries/spending units since they have been given more authority to manage their resources? What kinds of efforts have been made by the State Treasury to support and empower line ministries/spending units?)
 - c. How effective are the current practices of line ministries/spending units in executing budget allocation? (During the last four years, to what extent are there any changing trends (percentage) of budget absorption in line ministries? To what extent are there any changing trends (number) of budget virement/adjustment proposals from line ministries? To what extent are there any changing trends (number) of dispensation proposals on payment mechanism? To what extent does the State Treasury provide adequate flexibility in the end of budget year? What are the major factors that hamper the budget execution? What kinds of efforts have been made by the State Treasury to improve budget execution practices? Why do some problems still persist?) To what extent and how does the current budget execution system help absorb fiscal shocks?
[No. 2c will be asked to budget execution officials only]
3. The State Treasury is expected to be more professional in managing state cash as mandated by the State Treasury law.

- a. In your view, how effective is the current cash management system? (To what extent does the implementation of treasury single account support the management of state cash? To what extent does the State Treasury control accounts, reduce idle cash and utilize cash balance? To what extent does the current cash management system provide real-time information? To what extent are there any changing trends (amount) of cash balance at spending units? To what extent does the State Treasury provide adequate flexibility in managing petty cash? To what extent are there any changing trends (number) of additional petty cash proposal from spending units? To what extent and how does the State Treasury control disbursing financial officers at spending units? To what extent are the timeliness, accuracy and compliance of petty cash reports from disbursing finance officers? To what extent are there any changing trends (amount) of cash balance at Central Treasury Office? To what extent is there any interest income from the cash balance? To what extent is the accuracy of cash planning? What are the problems faced by the State Treasury in cash management? What kinds of efforts have been made by the State Treasury to improve cash management practices? Why do some problems still persist?)
 - b. How have fiscal agents responded to the treasury management reform so far? (How satisfied are you with the role of central bank and commercial banks as fiscal agents in supporting cash management? Have any problems emerged in the relationships between the State Treasury and fiscal agents? If yes, how do you cope with such problems)
 - c. Has there been any action to introduce e-government to the State Treasury system? (What would be the implications of doing so? What would be the barriers to implement e-money and internet banking services in government financial transactions?)
- [No. 3a and 3b will be asked to cash management officials only]
4. During 2004 - 2007 periods, on several occasions the Supreme Audit Institution (SAI) gave disclaimer opinions on the Financial Accountability reports presented by Government.
 - a. To what extent has the quality e.g. comprehensiveness, reliability, validity, timeliness of treasury's financial accountability reports at operational, regional and central levels improved in recent years? (To what extent is the achievement of cash towards accrual accounting system? To what extent has the State Treasury followed up the audit findings and recommendations made by the Supreme Audit Institution? What are the problems faced by the State Treasury in this regards? What kinds of efforts have been made to improve accounting and reporting practices? Why do some problems still persist?)
 - b. How satisfied are you with the financial accountability reports of line ministries since reform? (To what extent are the validity, accuracy and timeliness of reports at operational, regional and central levels? What specific efforts have been made by the State Treasury to enhance the quality of reports?)
 - c. What measures have been taken by the State Treasury in order to implement accrual accounting in government? (What is the current progress in terms of the implementation? To what extent is the accrual accounting standards issued? To what extent are the accounting skills within line ministries adequate to support accrual accounting practices? What are the problems faced by the State Treasury in implementing accrual accounting?)
- [No. 4 will be asked to accounting and reporting officials only]
5. In the White Paper concerning the public financial management reform in Indonesia, the importance of financial management information system has been highlighted. Since 2004 the State Treasury has been developing the integrated and computerized treasury system.
 - a. What is the progress made towards the development of the integrated and computerized system?
 - b. What are the major obstacles which hamper the development of the system?
- [No. 5 will be asked to treasury system officials only]
6. What additional steps are necessary to improve the effectiveness and to accelerate the implementation of treasury management reform?

FOR FINANCE MANAGERS AT MINISTRY LEVEL

1. Since PEM reform was launched in 2003, there have been some significant changes in treasury management system particularly in areas like budget execution, cash management, and accounting and reporting.
 - a. Are you satisfied with the current progress of treasury management reform? (If yes, can you indicate the areas where progress is satisfactory? If not, can you explain the reasons for your dissatisfactions?) Are you satisfied with the current outcomes of treasury management reform in general compared with the previous practices? (In your view, what are obstacles which hamper the achievement of reform outcomes?)
 - b. Do you think that current rules and regulations are adequate to manage treasury system? (If not, can you indicate the areas where rules and regulations are inadequate?)
2. The new Laws stipulate that the State Treasurer as chief financial officer and line ministers as chief operational officers. The decoupling role is expected to enhance checks and balances and support line ministries in achieving their goals of programs and activities.
 - a. To what extent has the State Treasury changed its control of line ministries/spending units in each treasury function area since reform? (In your view, how effective is the control conducted by the State Treasury since reform?)
 - b. How effective are the current practices of the State Treasury in treasury management function? (During the last four years, to what extent are there any changing trends (percentage) of budget absorption within your institution? To what extent are there any changing trends (number) of budget virement/adjustment proposals from your institution? To what extent is the appointment of proxy COOs and disbursing finance officers timely in the beginning of budget year? To what extent are there any changing trends (number) of dispensation proposals on payment mechanism? To what extent does the State Treasury provide adequate flexibility in the end of budget year? To what extent does the current organization structure of the State Treasury support the State Treasury roles, functions and services? What are your suggestions for the State Treasury to improve services?)
 - c. How effective are the current practices of your institution in delivering programs and activities and in executing budget allocation? (What are the major factors that hamper the budget execution? What kinds of efforts have been done by your institution to improve budget execution practices? Why do some problems still persist?) In your view, does the current budget execution system help absorb fiscal shocks? (If no, what are your suggestions for the State Treasury to improve budget execution system?)
3. The State Treasury is expected to be more professional in managing state cash as mandated by the State Treasury law.
 - a. In your view, how effective is the current cash management system particularly in areas like payment system and petty cash system? (To what extent are there any changing trends (amount) of petty cash balance at spending units? To what extent does the State Treasury provide adequate flexibility in managing petty cash? To what extent are there any changing trends (number) of additional petty cash proposal from spending units? To what extent and how does your institution control disbursing financial officers at spending units? To what extent are the timeliness, accuracy and compliance of petty cash reports from disbursing finance officers? To what extent does your institution provide accurate cash receipt and disbursement plan? To what extent does the current cash management system support your institution in delivering programs and activities? What are the problems faced by your institution in cash management? What are your suggestions for the State Treasury to improve cash management system)
 - b. In your view, do you think that the implementation of e-government in terms of e-money and internet banking to the State Treasury system will improve treasury services? (What would be the implications of doing so? What would be the barriers to implement e-money and internet banking services in government financial transactions?)

4. During 2004 - 2007 periods, on several occasions the Supreme Audit Institution (SAI) gave disclaimer opinions on the Financial Accountability reports presented by Government and only small number of line ministries' financial accountability reports received unqualified opinions.
 - a. How satisfied are you with the financial accountability reports of your institution? (To what extent are the validity, accuracy and timeliness of reports at operational, regional and central levels? To what extent has your institution followed up the audit findings and recommendations made by the Supreme Audit Institution? What are the problems faced by your institution in this regards? Why do some problems still persist? What specific efforts have been made by the State Treasury to enhance the quality of line ministries' financial accountability reports?)
 - b. In your view, do the financial accountability reports support your institution in monitoring budget execution and making managerial decisions? (What are your suggestions for the State Treasury to improve accounting and reporting system?)
5. What additional steps are necessary to improve the effectiveness and to accelerate the implementation of treasury management reform?

FOR CENTRAL BANK AND COMMERCIAL BANK OFFICIALS

1. Since PEM reform was launched in 2003, there have been some significant changes in treasury management system, particularly in area like cash management.
 - a. Are you satisfied with the current results of treasury management reform in general compared with the previous practices? (If yes, can you indicate the areas where results are satisfactory? If not, please explain the reasons for your dissatisfactions?)
 - b. How has your institution responded to the treasury management reform so far? (How is the coordination and cooperation between your institution and the State Treasury in the implementation of cash management reform? Have there been any problems in the relationships between the State Treasury and fiscal agents? If yes, how do you cope with such problems)
 - c. To what extent are the current rules and regulations adequate to manage treasury system? (What is your expectation concerning treasury rules and regulations?)
 - d. In your view, how effective is the current cash management system? (To what extent does your institution support the implementation of treasury single account? To what extent does your institution support the utilization of cash balance? To what extent does the current cash management system ensure timely payment? To what extent does the current cash management system provide real-time information? What are the problems faced by your institution in supporting cash management? What are your suggestions for the State Treasury to improve cash management system)
2. The central bank has been developing cashless society program.

Has your institution started the implementation of e-government in terms of e-money and internet banking to the State Treasury system? (If so, what is the progress so far? What would be the implications of doing so in terms of security and convenience? What would be the barriers to implement e-money and internet banking services in government financial transactions?)
3. What additional steps are necessary to improve the effectiveness of cash management system in general and to accelerate the implementation of e-treasury system in particular?

FOR THE MINISTRY OF INFORMATION AND COMMUNICATION TECHNOLOGY OFFICIALS

1. The law concerning Information and Electronic Transaction has been issued in 2008.
 - a. To what extent is the implementation of e-government in Indonesia? (What are the strategies to implement e-government? What is the role of the MICT in implementing e-government? What has the MICT done? To what extent is the implementation of G2B aspect? To what extent is the implementation of G2G aspect? What progresses have been achieved? To what extent do the progresses achieve intended targets? What programs/projects have being delivered? What obstacles are hampering the implementation of e-government? To what extent are current rules and regulations adequate to support the implementation of e-government?)
 - b. What have line ministries/agencies done concerning the implementation of e-government? (To what extent do line ministries/agencies coordinate with the MICT? To what extent do the skills and knowledge within line ministries/agencies support e-government? Are you satisfied with the current implementation of e-government at ministries/agencies? If yes, can you indicate the areas where progress is satisfactory? If not, can you explain the reasons for your dissatisfactions?)
2. The central bank has been developing a cashless society program. Has the MICT introduced the implementation of e-government in terms of e-money and internet banking to the State Treasury system? (What would be the implications of doing so in terms of security and convenience? What would be the barriers to implement e-money and internet banking services in government financial transactions?)
3. What additional steps are necessary to improve the effectiveness of cash management system in general and to accelerate the implementation of e-treasury system in particular?

FOR THE PROVIDERS OF GOODS AND SERVICES

1. Since PEM reform was launched in 2003, there have been some significant changes in treasury management system, particularly in areas like budget execution and cash payment.
 - a. Are you satisfied with the current results of treasury management reform in general compared with the previous practices? (If yes, can you indicates the areas where results are satisfactory? If not, can you explain the reasons for your dissatisfactions?)
 - b. Do the changes in treasury management influence the provision of goods and services by providers? (How have providers of goods and services responded to the treasury management reform so far?)
 - c. To what extent are current rules and regulations adequate to manage treasury system? (What is your expectation concerning treasury rules and regulations?)
 - d. In your view, what do you see the changing behaviours and practices at the State Treasury and line ministries/spending units since Reform? (What are your suggestions concerning the practices of the State Treasury Service Office and line ministries/spending unit?)
 - e. How effective is the current cash payment system? (To what extent does the current system ensure timely payment?)
 - f. How effective is the current procurement system/budget implementation system? (To what extent does the current system support budget execution from the beginning to the end of budget year? To what extent does the fiscal shocks adjustment influence the delivery of goods and services?)
 - g. What are problems which hamper the implementation of effective cash payment and budget execution? (Why do some problems still persist?)
2. To enhance service and maintain control of cash management, the State Treasury is planning to implement e-treasury system by using e-money and internet banking in government financial transactions.

To what extent are providers ready to accept the implementation of e-treasury payment? (What would be the implications of doing so? What would be the barriers to implement e-money and internet banking services in government financial transactions?)

3. What additional steps are necessary to improve the effective implementation of treasury management reform?

APPENDIX 8 QUESTIONNAIRES

FOR THE STATE TREASURY OFFICIAL AT REGIONAL OFFICES

All of the information you give will be treated as completely confidential and it will not be possible for anyone to identify the information you give when the study is written up

PART A

Please consider the following questions and indicate the extent to which you are satisfied/unsatisfied, quite satisfied/unsatisfied, or not sure						
Question		Satisfied	Quite Satisfied	Not sure	Quite Unsatisfied	Unsatisfied
1.	How satisfied are you with the progress of each of the following elements of treasury management reform?					
	a. The implementation of reform strategies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Adequacy of rules and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Current structure and organization of the State Treasury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	d. The role of line ministries/spending units in your region	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	e. The current role of fiscal agents in your region	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	f. Human resources management at the State Treasury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider each of the following questions and indicate the extent to which the content is excellent, good, fair, poor or bad						
Question		Excellent	Good	Fair	Poor	Bad
2.	How would you comment on the readiness of spending units in your region concerning treasury management reform in terms of					
	a. Willingness to change and learn?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Knowledge and skills in new treasury management system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Attitudes and behaviours towards result-based management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	How would you rate the preparedness of the State Treasury's staff in your region concerning treasury management reform in terms of					
	a. Willingness to change and learn?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Knowledge and skills in new treasury management system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.	How would you rate current coordination and cooperation in each of the following?					
	a. Between internal units horizontally at central office of the State Treasury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Between central office and regional offices vertically at the State Treasury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.	How would you rate the feedback velocity of current coordination between internal units horizontally at central office of the State Treasury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.	How would you rate the accuracy of financial data from each of following plans which are provided by units in your region					
	a. Cash receipt plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Cash disbursement plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.	How would you rate the control of spending units in your region on the following treasury functions					
	a. Budget execution (e.g. budget document preparation, contract management, pre-payment audit, budget virement proposal)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Cash management (e.g. petty cash, disbursing financial officer supervision, bank account management)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Accounting and reporting (e.g. recording data, reconcile data, presenting periodical reports)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.	How would you comment on the computerized system of cash management and accounting in terms of each of the following?					
	a. User friendliness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Flexibility to be adjusted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Ease of maintenance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.	How would you rate the quality of financial accountability reports which are presented by spending units to the State Treasury in your region before data reconciliation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please consider each of the following questions and indicate the extent to which the content is very useful, somewhat useful, a little useful or not at all useful						
Question		Very useful	Somewhat useful	A little useful	Not at all useful	
10	How useful do you think the socialization and dissemination initiatives of line ministries/spending units are in terms of					
	a. Increasing awareness and knowledge?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	b. Changing attitude and behaviour?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11	How useful do you think the trainings of line ministries/spending units are in terms of					
	a. Increasing skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	b. Changing practices?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Please consider the following statements and indicate the current situation						
Statement		Very increased	Slightly increased	Unchanged	Slightly decreased	Very decreased
12	During the last four years, there are some changing trends (number) of budget virement/adjustment proposals in your region					
	a. Between spending units within one unit organization	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Between activities within one spending unit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Between sub-activities within one activity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	d. Between expense classifications within one sub-activity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	During the last four years, there are some changing trends (percentage) of budget utilization/realization in your region in each of the following expense classifications					
	a. Salary and wage expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Good and service expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Capital expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	During the last four years, there are some changing trends (number) of dispensation proposals on payment mechanism in your region.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider the following statements and indicate the appropriate answer						
Statement		More than 4 months	Between 2 and 4 months	Between 1 and 2 months	Between 2 and 4 weeks	Less than 2 weeks
15	The time which is needed to adjust budget document due to fiscal shocks (e.g. budget cut) in your region.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Statement		More than 95%	Between 95% and 80%	Between 80% and 65%	Between 65% and 50%	Less than 50%
16	The percentage of the State Treasury staff who have willingness to change and learn the new treasury management system in your region.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider each of the following questions and indicate your answer						
Question		Yes	No	I do not know		
17	Do you think grand design and strategies for the current treasury management reform are					
	a. Well documented,	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
	b. Clear, and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
	c. Accessible?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
18	Do you think line ministries/spending units have been given adequate flexibility in managing their resources?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
19	Are there any scopes to expand the current functions or roles of the State Treasury in your region?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
	If your answer is YES, please explain which functions or roles could be expanded in your region?					

Please consider each of the following statements and indicate the extent to which you strongly agree/disagree, agree/disagree or are not sure					
Statement	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
20 The progress of treasury management reform can be accelerated	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21 To reduce idle money in region, the amount of cash balance at the disbursing finance officer level should be reduced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22 To control petty cash, the implementation of e-money in terms of smart card as a method to pay miscellaneous expenses in spending units should be introduced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
23 To control expenses and enhance better service to the providers, the implementation of Internet banking as a method to pay goods, services, and assets should be introduced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please answer all of the questions which apply					
24	Please indicate the major problems that undermine each of the following areas: a. The implementation of reform strategies b. The Improvement of skills and change of practices c. The development of an integrated computerized treasury system d. Others				
25	What are the major problems which hamper each of the following treasury functions in your region? a. The budget execution of spending units b. The implementation of cash management c. To present better financial accountability reports				

PART B

Please provide your recommendations to enhance the implementation of treasury management reform at regional level.

PART C

Please rank these elements based on their order of importance in achieving treasury management reform in the future (Put the number from 1 to 10. Number 1 is for the highest rank and number 10 is for the lowest rank)

No.	Elements	Rank
1.	Rules and regulations	<input type="checkbox"/>
2.	Awareness, knowledge, and culture of stakeholders	<input type="checkbox"/>
3.	Grand design and strategies of reform	<input type="checkbox"/>
4.	Coordination and cooperation – between institutions and within institution	<input type="checkbox"/>
5.	The structure and organization of the State Treasury - at central and regional level	<input type="checkbox"/>
6.	Integrated computerized system	<input type="checkbox"/>
7.	Human resources management at the State Treasury	<input type="checkbox"/>
8.	Budget document & Execution	<input type="checkbox"/>
9.	Cash Management	<input type="checkbox"/>
10.	Accounting & Reporting	<input type="checkbox"/>

PART D

Personal Details

No.	Item	Data			
1.	Gender	<input type="checkbox"/> Male	<input type="checkbox"/> Female		
2.	Age	<input type="checkbox"/> Less than 40	<input type="checkbox"/> Between 40 - 45	<input type="checkbox"/> Between 45 - 50	<input type="checkbox"/> More than 50
3.	Educational background	<input type="checkbox"/> Macro economics	<input type="checkbox"/> Budgeting/ Treasury/ Management	<input type="checkbox"/> Accounting	<input type="checkbox"/> Others
4.	Unit organization before reform	<input type="checkbox"/> DG Budget	<input type="checkbox"/> BAKUN	<input type="checkbox"/> DG Financial Institutions	<input type="checkbox"/> Others
5.	Working area	<input type="checkbox"/> Sumatra/ Borneo	<input type="checkbox"/> Java/ Bali	<input type="checkbox"/> Celebes	<input type="checkbox"/> Other areas

FOR THE STATE TREASURY STAFF

All of the information you give will be treated as completely confidential and it will not be possible for anyone to identify the information you give when the study is written up

PART A

Please consider the following questions and indicate the extent to which you are satisfied/unsatisfied, quite satisfied/unsatisfied, or not sure						
Question		Satisfied	Quite Satisfied	Not sure	Quite Unsatisfied	Unsatisfied
1.	Since PEM reform was launched in 2003, there have been some significant changes in treasury management. How satisfied are you with the result of each of the following changes of treasury management in general?					
	a. Budget execution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Cash management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Accounting and reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	How satisfied are you with the progress of each of the following elements of treasury management reform?					
	a. Adequacy of rules and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Current structure and organization of the State Treasury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. The role of line ministries/spending units in your region	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	d. The role of fiscal agents in your region	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	e. Human resources management at the State Treasury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	How satisfied are you with the results of each of the following practices of budget execution in your region? <i>(This question is for budget execution staff; it is optional for other staff)</i>					
	a. The approval of budget document in terms of process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. The appointment of proxy of chief operational officer and disbursing financial officer at spending units in the beginning of budget year	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. The payment order from spending units in terms of completeness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	d. The budget virement/adjustment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	e. The budget realization of spending units	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	f. The flexibility and accountability of budget execution in the end of budget year	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.	How satisfied are you with the results of each of the following practice of cash management in your region? <i>(This question is for cash management staff; it is optional for other staff)</i>					
	a. Cash receipt and disbursement plan by spending units in terms of accuracy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. The integration of bank account of spending units into treasury single account	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Petty cash management by disbursing financial officer at spending units	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.	Concerning the reports which are presented by the current system, how satisfied are you with the result of each of the following qualities of financial accountability reports at regional level? <i>(This question is for accounting & reporting staff; it is optional for other staff)</i>					
	a. Comprehensiveness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Validity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Reliability, and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	d. Timeliness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider each of the following questions and indicate the extent to which the content is excellent, good, fair, poor or bad						
Question		Excellent	Good	Fair	Poor	Bad
6.	How would you comment on the readiness of spending units in your region concerning treasury management reform in terms of					
	a. Willingness to change and learn?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Knowledge and skills in new treasury management system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Attitudes and behaviours towards result-based management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7.	How would you comment on the readiness of the State Treasury officials at your office/ in your region concerning treasury management reform in terms of					
	a. Willingness to change and learn?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Knowledge and skills in new treasury management system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Attitudes and behaviours in terms of professionalism and service oriented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.	How would you rate the preparedness of the other State Treasury staff at your office concerning treasury management reform in terms of					
	a. Willingness to change and learn?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Knowledge and skills in new treasury management system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Attitudes and behaviours in terms of professionalism and service oriented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.	How would you rate the treasury management training programs which have been provided by the Ministry of Finance/State Treasury at central level?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	How would you rate current coordination and cooperation in each of the following?					
	a. Between internal units horizontally at central office of the State Treasury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Between central office and regional offices vertically at the State Treasury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Between the State Treasury, spending units, and commercial banks as fiscal agents in your region	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	How would you rate the feedback velocity of current coordination between central office and regional offices vertically at the State Treasury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	How would you rate the control of spending units in your region on each of following treasury functions <i>(Point a is for budget execution staff, point b is for cash management staff and point c is for accounting & reporting staff, but it is optional for other staff)</i>					
	a. Budget execution (e.g. budget document preparation, contract management, pre-payment audit, budget virement proposal)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Cash management (e.g. petty cash management, disbursing financial officer supervision, bank account management)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Accounting and reporting (e.g. recording data, reconcile data, presenting periodical reports)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	How would you comment on the computerized system of cash management and accounting in terms of each of the following? <i>(This question is for cash management and accounting & reporting staff; it is optional for other staff)</i>					
	a. User friendliness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Flexibility to be adjusted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Ease to maintenance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	How would you rate the management of petty cash by the disbursing financial officers in your region? <i>(This question is for cash management staff; it is optional for other staff)</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	How would you rate the accuracy of financial data from each of the following plans which are provided by units in your region? <i>(This question is for budget execution and cash management staff; it is optional for other staff)</i>					
	a. Cash receipt plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Cash disbursement plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16	How would you rate the quality of financial accountability reports which are presented by spending units to the State Treasury in your region before data reconciliation? <i>(This question is for accounting & reporting staff; it is optional for other staff)</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17	How would you rate the quality of financial data which have been reconciled between the State Treasury Service Office and spending units and compiled by the STSO at regional level? <i>(This question is for accounting & reporting staff; it is optional for other staff)</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider each of the following questions and indicate the extent to which the content is very useful, somewhat useful, a little useful or not at all useful						
	Question	Very useful	Somewhat useful	A little useful	Not at all useful	
18	How useful do you think the socialization and dissemination initiatives of the State Treasury staff are in terms of					
	a. Increasing awareness and knowledge?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	b. Changing attitude and behaviour?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

19	How useful do you think the trainings of the State Treasury staff are in terms of					
	a. Increasing skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	b. Changing practices?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
20	How useful do you think the quality of financial data in budget document is to support the following treasury processes? <i>(Point a is for budget execution staff, point b is for cash management staff and point c is for accounting & reporting staff, but it is optional for other staff)</i>					
	a. Budget execution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	b. Cash management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	c. Accounting and reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	d. Performance measurement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Please consider the following statements and indicate the current situation						
	Statement	Very increased	Slightly increased	Unchanged	Slightly decreased	Very decreased
21	During the last four years, there are some changing trends of the State Treasury's control on line ministries/spending units. <i>(Point a is for budget execution staff, point b is for cash management staff and point c is for accounting & reporting staff, but it is optional for other staff)</i>					
	a. Budget execution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Cash management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Accounting and reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22	During the last four years, there are some changing trends (number) of budget virement/adjustment proposals in your region. <i>(This question is for budget execution staff; it is optional for other staff)</i>					
	a. Between spending units within one unit organization	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Between activities within one spending unit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Between sub activities within one activity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	d. Between expense classifications within one sub-activity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
23	During the last four years, there are some changing trends (percentage) of budget utilization/realization in your region in each of following expense classifications: <i>(This question is for budget execution and accounting & reporting staff; it is optional for other staff)</i>					
	a. Salary and wage expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Good and service expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Capital expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24	During the last four years, there are some changing trends (number) of dispensation proposals on payment mechanism in your region. <i>(This question is for budget execution and cash management staff; it is optional for other staff)</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25	During the last four years, there are some changing trends (number) of proposals to increase the amount of petty cash in your region. <i>(This question is for budget execution and cash management staff; it is optional for other staff)</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider the following statements and indicate the appropriate answer						
	Statement	More than 4 months	Between 2 and 4 months	Between 1 and 2 months	Between 2 and 4 weeks	Less than 2 weeks
26	The time which is needed to adjust budget document due to fiscal shocks (e.g. budget cut) in your region <i>(This question is for budget execution staff; it is optional for other staff)</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Statement	More than 95%	Between 95% and 80%	Between 80% and 65%	Between 65% and 50%	Less than 50%
27	The percentage of the State Treasury staff who have willingness to change and learn the new treasury management system at your office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please consider each of the following questions and indicate your answer						
	Question	Yes	No	I do not know		
28	Do you think all rules and regulations concerning treasury management reform are a. Clear and unambiguous, and b. Adequate to manage treasury system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
29	Do you think line ministries/spending units have been given adequate flexibility in managing their resources?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
30	Is each of the following elements adequate and effective to carry out the State Treasury's functions? a. Current organization structure of the State Treasury b. Current human resources management practices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
31	Does the shifting of pre-payment verification function from the state treasury to the spending units decrease the number of employees which are needed by the State Treasury?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
32	Are there any scopes to expand the current functions or roles of the State Treasury at your office? If your answer is YES, please explain which functions or roles could be expanded at your office?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
33	Have the current control mechanisms been effective to support the implementation of treasury management reform?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
34	Does the current system of budget execution support fiscal shock (e.g. budget cut)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
35	Does the current petty cash mechanism provide better (This question is for accounting & reporting staff; it is optional for other staff) a. flexibility, b. control, and c. accountability?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
	If your answer to any of the above is NO, please explain why?					
36	The State Treasury law stipulated that accrual accounting system should be implemented in 2008. Are the following institutions in your region ready to move into accrual accounting system? (This question is for accounting & reporting staff; it is optional for other staff) a. The State Treasury b. Line ministries/spending units	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
37	Does the consolidation of accounting reports at your region support the accuracy of state financial accountability reports? (This question is for accounting & reporting staff; it is optional for other staff)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
Please consider each of the following statements and indicate the extent to which you strongly agree/disagree, agree/disagree or are not sure						
	Statement	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
38	The progress of treasury management reform can be accelerated	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
39	To enhance coordination and cooperation among institutions, a team should be established	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
40	To enhance the service to spending units, the State Treasury Service Office should be opened in each municipalities/regents	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
41	To enhance the service to spending units, the utilization of integrated computerized system should be developed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
42	To minimize idle money, the amount of cash balance at the disbursing finance officer should be reduced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
43	To control petty cash, the implementation of E-money in terms of smart card as the method to pay miscellaneous expenses in spending units should be introduced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
44	To control expenses and enhance better service to providers of goods and services, the implementation of Internet banking as the method to pay in spending units should be introduced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please answer all of the questions which apply	
45	<p>What are the obstacles which hamper the implementation of each of the following elements?</p> <p>a. The issuance of new rules and regulations</p> <p>b. The Improvement of skills and change of practices</p> <p>c. The cooperation and coordination between institutions and within the State Treasury</p> <p>d. The development of an integrated computerized treasury system</p>
46	<p>What are the major problems which hamper each of following treasury functions in your region?</p> <p>a. The budget execution of spending units</p> <p>b. The implementation of cash management</p> <p>c. To present better financial accountability reports</p>
47	Which structure of the State Treasury should be established/adjusted/eliminated in order to carry out its functions and enhance its services?

PART B

Please provide your recommendations to enhance the implementation of treasury management reform level at regional level?

PART C

Please rank these elements based on their order of importance in achieving treasury management reform in the future (Put the number from 1 to 10. Number 1 is for the highest rank and number 10 is for the lowest rank)

No.	Elements	Rank
1.	Rules and regulations	<input type="checkbox"/>
2.	Awareness, knowledge, and culture of stakeholders	<input type="checkbox"/>
3.	Grand design and strategies of reform	<input type="checkbox"/>
4.	Coordination and cooperation – between institutions and within institution	<input type="checkbox"/>
5.	The structure and organization of the State Treasury - at central and regional level	<input type="checkbox"/>
6.	Integrated computerized system	<input type="checkbox"/>
7.	Human resources management at the State Treasury	<input type="checkbox"/>
8.	Budget document & Execution	<input type="checkbox"/>
9.	Cash Management	<input type="checkbox"/>
10.	Accounting & Reporting	<input type="checkbox"/>

PART D
Personal Details

No.	Item	Data			
1.	Gender	<input type="checkbox"/> Male	<input type="checkbox"/> Female		
2.	Age	<input type="checkbox"/> Less than 25	<input type="checkbox"/> Between 25 - 35	<input type="checkbox"/> Between 35 - 45	<input type="checkbox"/> More than 45
3.	Educational background	<input type="checkbox"/> Macro economics	<input type="checkbox"/> Budgeting/ Treasury/ Management	<input type="checkbox"/> Accounting	<input type="checkbox"/> Others
4.	Unit organization before reform	<input type="checkbox"/> DG Budget	<input type="checkbox"/> BAKUN	<input type="checkbox"/> DG Financial Institutions	<input type="checkbox"/> Others
5.	Current level of education	<input type="checkbox"/> Secondary education	<input type="checkbox"/> Diploma I / III degree	<input type="checkbox"/> Diploma IV/ Bachelor degree	<input type="checkbox"/> Master degree
6.	Working unit	<input type="checkbox"/> Budget execution	<input type="checkbox"/> Cash management	<input type="checkbox"/> Accounting & reporting	<input type="checkbox"/> Supporting unit/ Others
7.	Working place	<input type="checkbox"/> Headquarter	<input type="checkbox"/> Regional office	<input type="checkbox"/> Operational office	<input type="checkbox"/> NA
8.	Working area	<input type="checkbox"/> Sumatra/ Borneo	<input type="checkbox"/> Java/ Bali	<input type="checkbox"/> Celebes	<input type="checkbox"/> Other areas

FOR HEAD OF SPENDING UNITS

All of the information you give will be treated as completely confidential and it will not be possible for anyone to identify the information you give when the study is written up

PART A

Please consider the following questions and indicate the extent to which you are satisfied/unsatisfied, quite satisfied/unsatisfied or not sure						
Question		Satisfied	Quite Satisfied	Not sure	Quite Unsatisfied	Unsatisfied
1.	Since PEM reform was launched in 2003, there have been some significant changes in treasury management. How satisfied are you with the result of each of the following treasury functions in general?					
	a. Budget execution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Cash management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Accounting and reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	How satisfied are you with the progress of each of the following elements of treasury management reform?					
	a. Adequacy of rules and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. The service of the State Treasury Service Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. The supervisory of ministerial finance manager from central office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	How satisfied are you with the results of each of the following practices of budget execution at your office?					
	a. The approval of budget document in terms of process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. The accomplishment of programs and activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. The budget virement/adjustment in terms of timeliness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	d. The budget realization	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.	How satisfied are you with the results of each of the following practices of cash management at your office?					
	a. Cash receipt and disbursement plan which you prepare in terms of accuracy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. The approval to open bank account by the State Treasury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Petty cash management by disbursing financial officer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	d. The payment of goods and services which have been delivered	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.	Concerning the reports which are presented by the current system, how satisfied are you with the results of each of the following qualities of financial accountability reports of your office?					
	a. Validity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Reliability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Timeliness, and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	d. Information for decision making	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider each of the following statements and indicate the extent to which the statement is excellent, good, fair, poor or bad						
Statement		Excellent	Good	Fair	Poor	Bad
6.	How would you comment on the readiness of the State Treasury officials in your region concerning treasury management reform in terms of					
	a. Knowledge and skills in new treasury management system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Attitudes and behaviours in terms of professionalism and service oriented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.	How would you comment on the readiness of the State Treasury staff in your region concerning treasury management reform in terms of					
	a. Knowledge and skills in new treasury management system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Attitudes and behaviours in terms of professionalism and service oriented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.	How would you rate the treasury management training programs which have been provided by the State Treasury Regional Office or the State Treasury Service Office in your region	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.	How would you rate current coordination and cooperation in each of following					
	a. Between internal units horizontally at the State Treasury Regional Office or the State Treasury Service Office in your region	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	b. Between the State Treasury Service Office and your office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Between the headquarter of State Treasury and your line ministry at central level	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	How would you comment on the computerized system in cash management and accounting in terms of each of the following?					
	a. User friendliness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Flexibility to be adjusted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Ease of maintenance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider each of the following questions and indicate the extent to which the content is very useful, somewhat useful, a little useful or not at all useful						
	Question	Very useful	Somewhat useful	A little useful	Not at all useful	
11	How useful do you think the socialization and dissemination initiatives of line ministries/spending unit in increasing awareness and knowledge?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12	How useful do you think the trainings of line ministries/spending units in terms of					
	a. Increasing skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	b. Changing practices?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
13	How useful do you think the quality of financial data in budget document is to support the following treasury processes?					
	a. Budget execution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	b. Cash management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	c. Accounting and reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	d. Performance measurement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
14	How useful do you think the supervisory of treasury management by the State Treasury Service Office?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15	How useful do you think the reconciliation of financial data between the State Treasury Service Office and your office?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Please consider the following statements and indicate the current situation						
	Statement	Very High	High	Unchanged	Low	Very Low
16	The level of the State Treasury's control on each of the following treasury functions at your office					
	a. Budget execution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Cash management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Accounting and reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17	The flexibility of spending unit in managing each of the following items					
	a. Activities, in terms of determine appropriate sub activities to support the achievement of activities' outputs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Budget allocations, in terms of utilization and shifting budget allocation between sub-activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Utilization of cash which is allocated in budget document	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	d. Assets, in terms of the acquisition, utilization, and assets disposal	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	e. Human resources, in terms of the authorization to recruit staff which are needed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider each of the following statements and indicate the current situation						
	Statement	Very increased	Slightly increased	Unchanged	Slightly decreased	Very decreased
18	During the last four years, there are some trends (number) of budget virement/adjustment proposals of your office.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19	During the last four years, there are some trends (percentage) of budget utilization/realization at your office in each of the following expense classifications:					
	a. Salary and wage expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Good and service expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Capital expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20	During the last four years, there are some trends (number) of dispensation proposals on payment mechanism at your office .	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21	During the last four years, there are some trends (number) of proposals to increase the amount of petty cash at your office.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please consider the following statement and indicate the appropriate answer						
Statement		More than 4 months	Between 2 and 4 months	Between 1 and 2 months	Between 2 and 4 weeks	Less than 2 weeks
22	The time which is needed to adjust your budget document due to fiscal shocks (e.g. budget cut)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider each of the following questions and indicate your answer						
Question		Yes	No	I do not know		
23	Do you think all rules and regulations concerning treasury management reform are					
	a. Clear and unambiguous, and	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
	b. Adequate to manage treasury system?	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
24	Have you been given any socialization, dissemination, and training programs by the State Treasury concerning treasury management reform?	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
25	Have current control mechanisms by the State Treasury been effective to support the implementation of treasury management reform?	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
26	Does the current system of budget execution support fiscal shocks (e.g. budget cut)?	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
27	Are financial data from the previous year financial accountability reports used in preparing budget proposal of your office?	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
28	Does the current petty cash mechanism provide better					
	a. flexibility,	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
	b. control, and	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
	c. accountability?	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
	If your answer to any of the above is NO, please explain why?					
Please consider each of the following statements and indicate the extent to which you agree or disagree						
Statement		Strongly agree	Agree	Not sure	Disagree	Strongly disagree
29	To enhance the service to spending units, the State Treasury Service Office should be opened in each municipalities/regents	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
30	To enhance the service to spending units, the utilization of integrated computerized system should be developed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
31	To control petty cash, the implementation of e-money in terms of smart card as the method to pay miscellaneous expenses in spending units should be introduced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
32	To control expenses and enhance better service to providers of goods and services, the implementation of Internet banking as the method to pay in spending units should be introduced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please answer this question						
33	What are the obstacles which hamper the implementation of treasury management reform at your office?					
	a.					
	b.					
	c.					

PART B

Please provide your recommendations to enhance the implementation of treasury management reform level at regional level?

PART C

Please rank these elements based on their order of importance in achieving treasury management reform in the future (Put the number from 1 to 9. Number 1 is for the highest rank and number 9 is for the lowest rank)

No.	Elements	Rank
1.	The issuance of rules and regulations	<input type="checkbox"/>
2.	Skills, attitudes, and services of the State Treasury Service Office	<input type="checkbox"/>
3.	Coordination and cooperation – between your office and the State Treasury	<input type="checkbox"/>
4.	The development of Integrated computerized system	<input type="checkbox"/>
5.	Capacity building of spending unit	<input type="checkbox"/>
6.	The procedures and system of Budget document & Execution	<input type="checkbox"/>
7.	The procedures and system of Cash management	<input type="checkbox"/>
8.	The procedures and system of Accounting & Reporting	<input type="checkbox"/>
9.	The supervisory of ministerial finance officer	<input type="checkbox"/>

PART D

Personal Details

No.	Item	Data			
1.	Gender	<input type="checkbox"/> Male	<input type="checkbox"/> Female		
2.	Age	<input type="checkbox"/> Less than 40	<input type="checkbox"/> Between 40 - 45	<input type="checkbox"/> Between 45 - 50	<input type="checkbox"/> More than 50
3.	Duration of current position	<input type="checkbox"/> More than 4 years	<input type="checkbox"/> Between 4 - 2 years	<input type="checkbox"/> Between 2 – 1 years	<input type="checkbox"/> Less than 1 year
4.	Educational background	<input type="checkbox"/> Macro economics	<input type="checkbox"/> Management	<input type="checkbox"/> Accounting	<input type="checkbox"/> Others
5.	Current level of education	<input type="checkbox"/> Secondary education	<input type="checkbox"/> Diploma I / III degree	<input type="checkbox"/> Diploma IV/ Bachelor degree	<input type="checkbox"/> Master degree
6.	Working area	<input type="checkbox"/> Sumatra/ Borneo	<input type="checkbox"/> Java/ Bali	<input type="checkbox"/> Celebes	<input type="checkbox"/> Other areas
7.	Frequency of treasury management training	<input type="checkbox"/> Never	<input type="checkbox"/> Between 1- 2 times	<input type="checkbox"/> Between 3 – 5 times	<input type="checkbox"/> More than 5 times

FOR DISBURSING FINANCE OFFICER AT SPENDING UNITS

All of the information you give will be treated as completely confidential and it will not be possible for anyone to identify the information you give when the study is written up

PART A

Please consider the following questions and indicate the extent to which you are satisfied/unsatisfied, quite satisfied/unsatisfied or not sure						
Question		Satisfied	Quite Satisfied	Not sure	Quite Unsatisfied	Unsatisfied
1.	Since PEM reform was launched in 2003, there have been some significant changes in treasury management. How satisfied are you with the current practice of treasury management in general and petty cash management in particular?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	How satisfied are you with the implementation of each of the following roles of disbursing finance officer?					
	a. Current responsibility, in terms of petty cash transactions and other financial transactions of spending unit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Current accountability, in terms of utilization and reimbursement of petty cash, monthly cash flow report, and personal fiduciary accountability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Current independency, in terms of approval of petty cash utilization	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	How satisfied are you with the progress of each of the following roles of State Treasury?					
	a. The issuance of rules and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. The current service of the State Treasury Service Office in your region	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. The supervision of the State Treasury Service Office on treasury management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	d. The training programs of treasury management which are conducted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.	How satisfied are you with the results of each of following budget execution practices at your region?					
	a. The appointment of disbursing financial officer by the high level officer at the beginning of budget year in terms of timeliness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. The payment of initial petty cash at the beginning of budget year	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. The accountability of petty cash in the end of budget year	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.	How satisfied are you with the results of each of following cash management practices at your region?					
	a. Bank account's control by the State Treasury in terms of approval and utilization	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Petty cash management in your office in terms of compliance, reports, and monitoring	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Payment of goods and services which have been delivered by providers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.	Concerning the cash reports which are presented by the current system, how satisfied are you with the results of each of following accounting and reporting practices at your office?					
	a. The utilization of general ledger (big blue book) to record transactions manually	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. The utilization of subsidiary ledgers to record by detailed expense classifications manually	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider each of the following questions and indicate the extent to which the content is excellent, good, fair, poor or bad						
Question		Excellent	Good	Fair	Poor	Bad
7.	How would you comment on the readiness of the head of spending unit at your office concerning treasury management reform in terms of					
	a. Knowledge and skills in new treasury management system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Attitudes and behaviours towards result-based management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.	How would you comment on the readiness of the State Treasury staff in your region concerning treasury management reform in terms of					
	a. Knowledge and skills in new treasury management system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Attitudes and behaviours in terms of professionalism and service oriented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.	How would you rate the treasury management trainings which have been provided by the State Treasury Regional Office or the State Treasury Service Office in your region?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10.	How would you rate current coordination and cooperation between the State Treasury Service Office and your office?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please consider each of the following questions and indicate the extent to which the content is very useful, somewhat useful, a little useful or not at all useful						
Question		Very useful	Somewhat useful	A little useful	Not at all useful	
11	How useful do you think the socialization and dissemination initiatives of line ministries/spending unit in increasing awareness and knowledge	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12	How useful do you think the trainings of line ministries/spending units in terms of					
	a. Increasing skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	b. Changing practices?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
13	How useful do you think the quality of financial data in budget document is to support the following treasury processes?					
	a. Budget execution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	b. Cash management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	c. Accounting and reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
14	How useful do you think the supervision of treasury management by the State Treasury Service Office?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15	How useful do you think the reconciliation of financial data between the State Treasury Service Office and your office?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Please consider the following statement and indicate the current situation						
Statement		Very High	High	Unchanged	Low	Very Low
16	The level of the State Treasury's control on petty cash management compared with the previous control mechanism	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider each of the following statements and indicate the extent to which the statement changes						
Statement		Very increased	Slightly increased	Unchanged	Slightly decreased	Very decreased
17	During the last four years, there are some trends of time which is needed by the State Treasury Service Office to approve the payment order from spending unit.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18	During the last four years, there are some trends of the head of spending unit's intervention to order inappropriate payment request.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19	During the last four years, there are some trends (percentage) of budget utilization/realization of your office in each of following expense classifications:					
	a. Salary and wage expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Good and service expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Capital expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider each of the following statements and indicate the appropriate answer						
Statement		Since the beginning of budget year	Before the 2 nd week of January	Before the end of January	Before the end of February	After February
20	The availability of the appointment letter of disbursing finance officer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Statement		More than 3 days	Between 1 to 3 days	Between 3 hours to 1 day	Between 1 to 3 hours	Less than 1 hour
21	The average time which is needed by the State Treasury Service Office to approve the payment order of your office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Statement		More than 4 months	Between 2 and 4 months	Between 1 and 2 months	Between 2 and 4 weeks	Less than 2 weeks
22	The average time which is needed to adjust your budget document in each of following items					
	a. Between activities within one spending unit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Between sub activities within one activity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. Between economic classifications within one sub-activity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Statement		More than 4 months	Between 2 and 4 months	Between 1 and 2 months	Between 2 and 4 weeks	Less than 2 weeks
23	The average time which is needed to adjust your budget document due to fiscal shocks (e.g. budget cut)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please consider each of the following questions and indicate your answer						
Question		Yes	No	I do not know		
24	Are all rules and regulations concerning treasury management reform adequate to manage treasury functions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
25	Have you been given any socialization, dissemination, and training programs by the State Treasury concerning treasury management reform?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
26	Have you been given any training concerning petty cash management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
27	Has the State Treasury provided adequate training skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
28	Has the current control mechanism by the State Treasury to disbursing financial officers supported the effectiveness of treasury management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
29	Has the current internal/managerial control within spending unit supported the effectiveness of treasury management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
30	Are the separation functions between administrative and financial officers implemented in your office?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
31	Do the separation functions provide a better control than the previous system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
If your answer to any of the above is NO, please explain why?						
32	Are there any duplication functions between accounting which is recorded by disbursing finance officer and by accounting officer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
33	Do disbursing financial officer and accounting officer have equal position?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
34	Is the procedure to propose budget virement/adjustment clear?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
35	Has the current mechanism of budget execution supported spending units in accomplishing programs and activities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
36	Does your office propose budget virement/adjustment this year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
37	Is the current mechanism of cash payment better than the previous system before Reform?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
If your answer to any of the above is NO, please explain why?						
38	Does your office propose the dispensation on payment mechanism this year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
39	Do you appoint the assistance of disbursing financial officer to manage cash advance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
40	Do you propose to increase the amount of petty cash which you manage this year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
41	Do you use computerized accounting system in managing petty cash?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
42	Does the current petty cash mechanism provide better					
	a. flexibility,	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
	b. control, and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
	c. accountability?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
If your answer to any of the above is NO, please explain why?						
43	Has the current system of budget execution been effective to support fiscal shocks (e.g. budget cut)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
Please consider each of the following statements and indicate the extent to which you strongly agree/disagree, agree/disagree or not sure						
Statement		Strongly agree	Agree	Not sure	Disagree	Strongly disagree
44	To control miscellaneous expense, the implementation of E-money such as smart card as the method to pay in spending units should be introduced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
45	To increase the service to the providers of goods and services, the implementation of Internet banking as the method to pay in spending units should be introduced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please answer this question						
46	What are the obstacles which hamper the role of disbursing financial officer in managing petty cash?					
	a.					
	b.					

	c.
	d.

PART B

Please provide your recommendations to enhance the implementation of treasury management reform at your office?

PART C

Please rank these elements based on their order of importance in achieving treasury management reform in the future (Put the number from 1 to 9. Number 1 is for the highest rank and number 9 is for the lowest rank)

No.	Elements	Rank
1.	The supervision of the State Treasury Service Office	<input type="checkbox"/>
2.	The control of the head office	<input type="checkbox"/>
3.	The computerized petty cash system	<input type="checkbox"/>
4.	The training of treasury management	<input type="checkbox"/>
5.	The procedures of Budget document & execution	<input type="checkbox"/>
6.	The procedures of cash advance payment and reimbursement	<input type="checkbox"/>
7.	The procedures of Accounting, data reconciliation, and reporting	<input type="checkbox"/>
8.	The independency of disbursing finance officer	<input type="checkbox"/>
9.	The Appointment, Roles, Accountability, and Responsibility of assistant of disbursing financial officer	<input type="checkbox"/>

PART D

Personal Details

No.	Item	Data				
1.	Gender	<input type="checkbox"/> Male				<input type="checkbox"/> Female
2.	Age	<input type="checkbox"/> Less than 25	<input type="checkbox"/> Between 25 - 35	<input type="checkbox"/> Between 35 - 45	<input type="checkbox"/> More than 45	
3.	Duration of current position	<input type="checkbox"/> More than 4 years	<input type="checkbox"/> Between 4 - 2 years	<input type="checkbox"/> Between 2 – 1 years	<input type="checkbox"/> Less than 1 year	
4.	Educational background	<input type="checkbox"/> Macro economics	<input type="checkbox"/> Management	<input type="checkbox"/> Accounting	<input type="checkbox"/> Others	
5.	Current level of education	<input type="checkbox"/> Secondary education	<input type="checkbox"/> Diploma I degree	<input type="checkbox"/> Diploma III degree	<input type="checkbox"/> Bachelor degree	

- | | | | | |
|---|--|---|---|---|
| 6. Working area | <input type="checkbox"/> Sumatra/
Borneo | <input type="checkbox"/> Java/ Bali | <input type="checkbox"/> Celebes | <input type="checkbox"/> Other
areas |
| 7. Frequency of treasury
management training | <input type="checkbox"/> Never | <input type="checkbox"/> Between 1- 2
times | <input type="checkbox"/> Between 3 – 5
times | <input type="checkbox"/> More than
5 times |
| 8. Treasury service is
delivered by | <input type="checkbox"/> Conventional
the State
Treasury
Service Office | <input type="checkbox"/> Modern the
State Treasury
Service Office | | |
-

FOR THE PROVIDER OF GOODS AND SERVICES

All of the information you give will be treated as completely confidential and it will not be possible for anyone to identify the information you give when the study is written up

PART A

Please consider the following question and indicate the extent to which you are satisfied/unsatisfied, quite satisfied/unsatisfied or not sure						
Question		Satisfied	Quite Satisfied	Not sure	Quite Unsatisfied	Unsatisfied
1.	Since PEM reform was launched in 2003, there have been some significant changes in treasury management. How satisfied are you with the current practice of treasury management in general and cash management in particular?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider each of the following questions and indicate the extent to which the content is excellent, good, fair, poor or bad						
Question		Excellent	Good	Fair	Poor	Bad
2.	How would you comment on the readiness of the State Treasury in your region concerning treasury management reform in terms of					
	a. Knowledge and skills in new treasury management system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. Attitudes and behaviours in terms of professionalism and service oriented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	How would you comment on readiness of spending units in your region in terms of attitudes and behaviours towards results-based management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Please consider each of the following statements and indicate the appropriate answer						
Statement		More than 7 days	Between 4 to 7 days	Between 2 to 3 day	In a day	
4.	The average time which is needed by spending unit to approve the payment request	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Statement		More than 3 days	Between 1 to 3 days	Between 3 hours to 1 day	Between 1 to 3 hours	
5.	The average time which is needed by the State Treasury Service Office to approve the payment order	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Please consider each of the following questions and indicate your answer						
Question		Yes	No	I do not know		
6.	Do you think all rules and regulations concerning treasury management reform are					
	a. Clear and unambiguous, and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
	b. Adequate to manage treasury system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
7.	Is the current mechanism of budget execution in terms of procurement and commitment better than the previous system before Reform?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
	If your answer is NO, please explain why?					
8.	Is the current mechanism of cash payment better than the previous system before Reform?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
	If your answer is NO, please explain why?					
9.	Have you ever used e-money in terms of smart card in payment transaction?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
10.	Have you ever used internet banking in payment transaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
Please answer this question						
11.	What are the major implications of treasury management reform to the providers of goods and services?					
12.	What do you expect from the rules and regulations of treasury management?					

13	To enhance service and maintain control of cash management, the State Treasury is planning to implement e-treasury system by using e-money in government financial transactions. What do you think about that plan?
14	To enhance service and maintain control of cash management, the State Treasury is planning to implement e-treasury system by using internet banking in government financial transactions. What do you think about that plan?
15	What are your suggestions concerning the treasury system in the future?

PART B
Personal Details

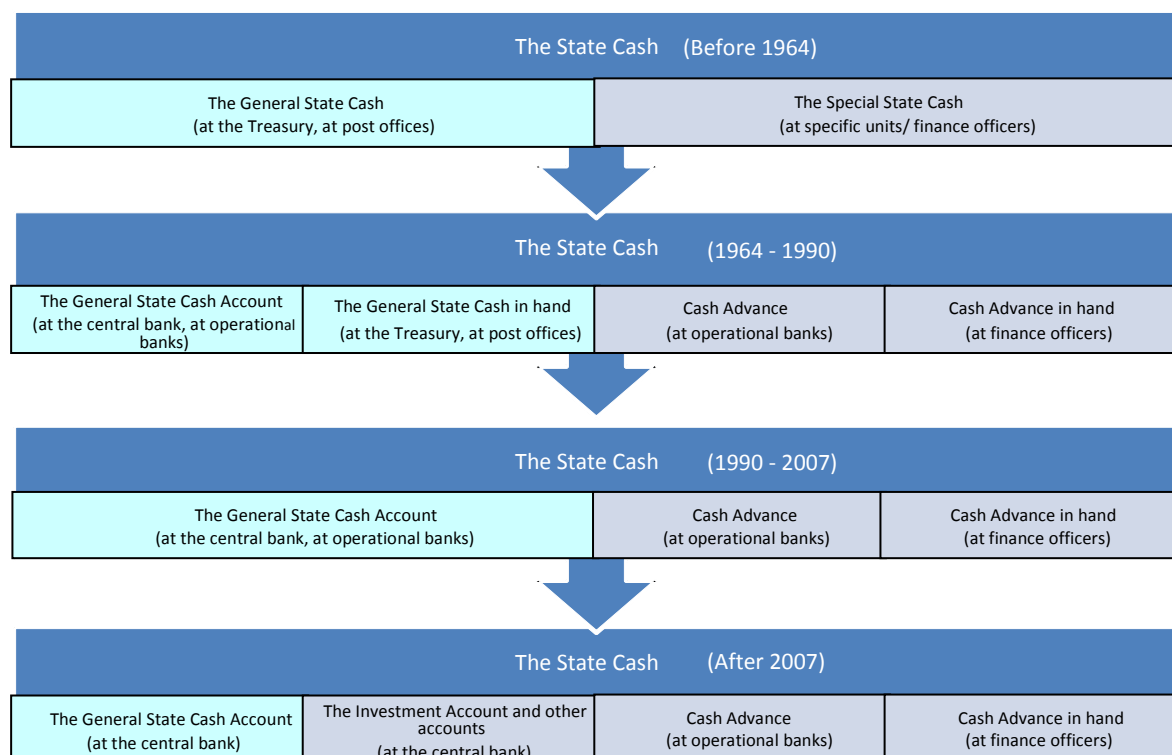
No.	Item	Data			
1.	Gender	<input type="checkbox"/> Male	<input type="checkbox"/> Female		
2.	Age	<input type="checkbox"/> Less than 40	<input type="checkbox"/> Between 40 - 45	<input type="checkbox"/> Between 45 - 50	<input type="checkbox"/> More than 50
3.	Educational background	<input type="checkbox"/> Economics	<input type="checkbox"/> Technique	<input type="checkbox"/> Others	
4.	Working area	<input type="checkbox"/> Sumatra/ Borneo	<input type="checkbox"/> Java/ Bali	<input type="checkbox"/> Celebes	<input type="checkbox"/> Other areas
5.	Working year	<input type="checkbox"/> Less than 5 year	<input type="checkbox"/> Between 5 – 10 years	<input type="checkbox"/> Between 10 – 15 years	<input type="checkbox"/> More than 15 years
6.	Type of service	<input type="checkbox"/> Goods	<input type="checkbox"/> Services	<input type="checkbox"/> Constructions	<input type="checkbox"/> Others
7.	Total contract in 2008	<input type="checkbox"/> Less than IDR 50 million	<input type="checkbox"/> Between IDR 50 – 300 million	<input type="checkbox"/> Between IDR 300 million – 1 billion	<input type="checkbox"/> More than 1 billion
8.	Frequency of contract in 2008	<input type="checkbox"/> Once	<input type="checkbox"/> Between 2 – 3 times	<input type="checkbox"/> Between 4 – 6 times	<input type="checkbox"/> More than 6 times

APPENDIX 9 THE ISSUANCE OF LAWS AND GOVERNMENTAL REGULATIONS

Laws	Government Regulations
The Public Finance Law	<ul style="list-style-type: none"> GR concerning the control of the accumulation of state budget deficits and government debts (GR no.23/2003) GR concerning the Annual Government Work Plan (GR no.20/2004) GR concerning the Line Ministries/agencies' Work Plan and Budget (GR 21/2004)
The Public Treasury Law	<ul style="list-style-type: none"> GR concerning the Public Sector Accounting Standards (GR no.24/2005) GR concerning the Financial Management of Public Service Agency (GR no.23/2005) GR concerning the Management of Foreign Loans, Grants, and Lending (GR no. 2/2006) GR concerning the Government Assets Management (GR no.6/2006) GR concerning the Government Financial Reports and Performance Reports (GR no. 8/2006) GR concerning The Write-off of Government Receivable (GR no. 33/2006) GR concerning the Government Investment (GR no.8/2007) GR concerning the Government Cash Management (GR no. 39/2007)
The Public Audit Law	<ul style="list-style-type: none"> SAI Regulation concerning the Government Financial Audit Standards (SAIR no. 1/2007)
The National Planning System Law	<ul style="list-style-type: none"> GR concerning The Controlling and Evaluation of National Plan (GR no. 39/2007)

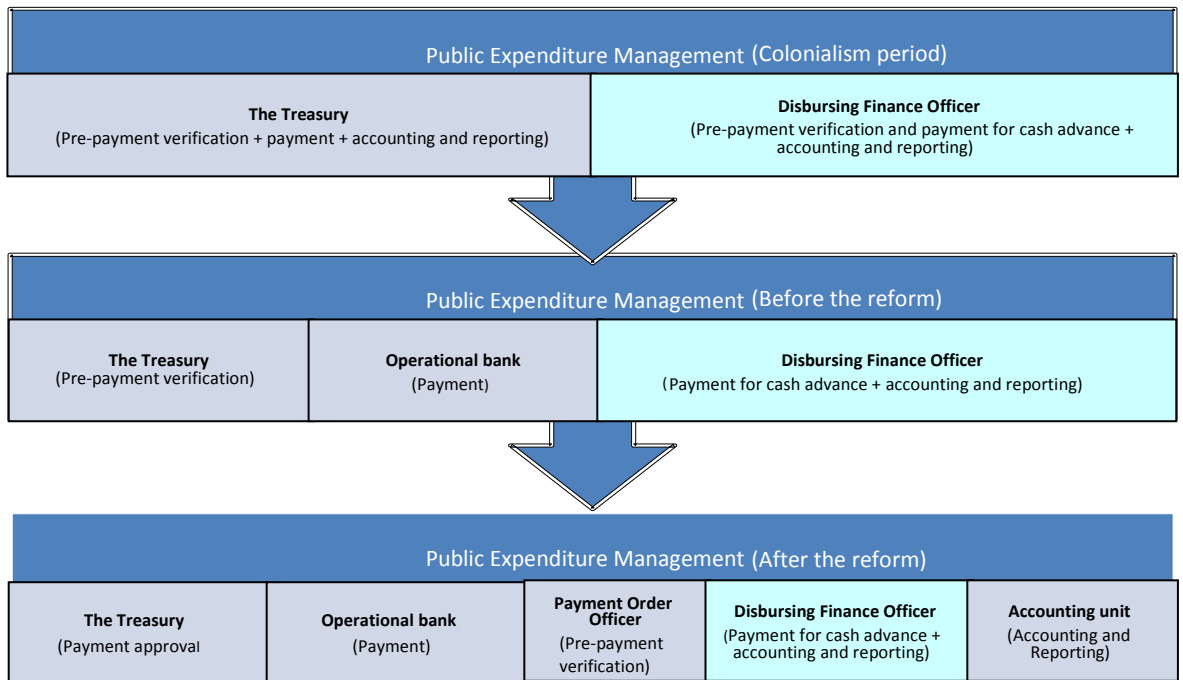
Sources: www.depkeu.go.id; www.bappenas.go.id; www.bpk.go.id

APPENDIX 10 THE STATE CASH AND THE CHANGING SCOPE OF THE GENERAL STATE CASH ACCOUNT



Source: Adapted from the MoF regulations and reports

APPENDIX 11 THE CHANGING ROLES OF DISBURSING FINANCE OFFICER AND THE PEM SYSTEM



Source: Adapted from the MoF regulations and publications

APPENDIX 12 THE VARIABLES AND MEASURED INDICATORS

No.	Variables	Measured Indicators	Cronbach's alpha
1.	Budget Execution 1. Budget Document and approval at the beginning of budget year e.g. the practices of the approval of budget document in terms of process 2. Budget realization, commitment, verification, payment request e.g. the practices of the budget realization at spending unit 3. Budget virement and adjustment e.g. the changing trends of budget adjustment proposals between activities 4. Fiscal shocks e.g. the time needed to adjust budget document due to fiscal shocks 5. Control on budget execution e.g. the changing trends of the treasury's control on budget execution	24 indicators from BE01 to BE06 from BE07 to BE14 from BE15 to BE19 from BE20 to BE21 from BE22 to BE24	0.884
2.	Cash Management 1. Cash planning e.g. the accuracy of cash receipt & disbursement plan by spending units 2. Cash payment and disbursement e.g. the practices of the integration of bank accounts into TSA 3. Petty cash management e.g. the changing trends of proposals to increase the amount of petty cash 4. Control on cash management e.g. the control on cash at spending unit	16 indicators from CM01 to CM04 from CM05 to CM07 from CM08 to CM13 from CM14 to CM16	0.873
3.	Accounting & Reporting 1. Accounting & reporting process e.g. the timeliness of financial reports at regional level 2. Quality of financial reports e.g. the quality of financial reports before reconciliation 3. Control on accounting & reporting e.g. the control on accounting & reporting by accounting officer at spending unit 4. Implementation of accrual accounting e.g. the readiness of line ministry to apply accrual accounting	14 indicators from AR01 to AR05 from AR06 to AR09 from AR10 to AR12 from AR13 to AR14	0.875
4.	Institutional Arrangements 1. Rules and regulations e.g. the adequacy of rules and regulations 2. Organizational structure e.g. the effectiveness of the treasury's organizational structure to carry out treasury functions	5 indicators from IA01 to IA03 from IA04 to IA05	0.575
5.	Roles of The Treasury 1. Treasury Official e.g. the attitudes and behaviours of the official in terms of professionalism and service oriented 2. Treasury Staff e.g. the knowledge and skills of the staff concerning treasury management system 3. Dissemination information & training programs e.g. the treasury trainings in changing practices 4. HR management e.g. the effectiveness of HR management at the treasury to support treasury functions	14 indicators from TS01 to TS03 from TS04 to TS07 from TS08 to TS12 from TS13 to TS14	0.862
6.	Coordination & Cooperation 1. Horizontal coordination e.g. coordination & coordination between the treasury, line ministry and treasury agent 2. Vertical coordination e.g. the feedback velocity of coordination between central office and regional office	4 indicators from CC01 to CC02 from CC03 to CC04	0.794
7.	Roles of Other Stakeholders 1. Line ministry e.g. willingness to change and learn of spending unit concerning treasury management 2. Treasury agent - the role of treasury agent at operational level	6 indicators from OS01 to OS05 OS06	0.700
8.	Computerized treasury system 1. User-friendliness - user friendliness of the computerized cash management & accounting system 2. Flexibility to be adjusted - flexibility to be adjusted of the computerized cash management & accounting system 3. Ease of maintenance - ease to maintenance of the computerized cash management & accounting system 4. Integration and e-transaction e.g. the implementation of e-transaction to support payment	6 indicators IT01 IT02 IT03 IT04 – IT06	0.943 0.572

APPENDIX 13 MODEL FIT SUMMARY

CMIN

Model	CMIN	DF	P	CMIN/DF
Default model	75.557	40	.001	1.889
Saturated model	.000	0		
Independence model	885.883	55	.000	16.107

RMR, GFI

Model	RMR	GFI	AGFI	PGFI
Default model	8.645	.934	.892	.566
Saturated model	.000	1.000		
Independence model	48.448	.403	.284	.336

Baseline Comparisons

Model	NFI Delta1	IFI Delta2	TLI rho2	CFI
Default model	.915	.958	.941	.957
Saturated model	1.000	1.000		1.000
Independence model	.000	.000	.000	.000

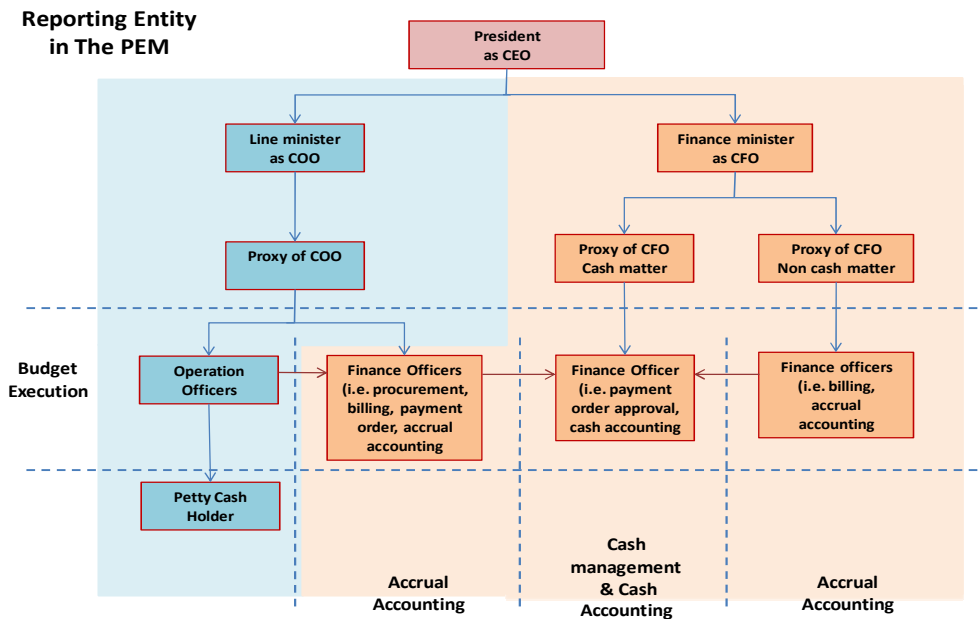
Parsimony-Adjusted Measures

Model	PRATIO	PNFI	PCFI
Default model	.727	.665	.696
Saturated model	.000	.000	.000
Independence model	1.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.068	.044	.092	.099
Independence model	.282	.266	.298	.000

APPENDIX 14 THE MODIFIED PEM FRAMEWORK



The Treasury is to manage and account for cash

The framework has certain implications for the existing PEM system since the reform; in particular it strengthens the roles of the Ministry of Finance in financial management and the main roles of the Treasury in cash management. Additionally, it emphasizes the roles of the Treasury in controlling state cash in terms of bank accounts, cash holdings, cash accounting and reporting, and cash management in general, even though the Treasury should, conversely, be responsible for empowering other finance officers to have oversight of non-cash matters. As a consequence, the Treasury is required to handle all cash transactions, both cash receipts and cash payments, although it also has to consider the differences in their control. Moreover, although cash management is one of the roles of the Treasury, the framework reemphasizes the basis of the relationship between the Treasury, the Central Bank, and operational banks as a principal-agent relationship. In addition, the framework strengthens the appointment of

treasury agents not only to ensure the efficiency of treasury services but also to deliver services that are beyond the capability of the Treasury. To illustrate this point, the decision of the Treasury to place a short-term cash surplus by developing a dealing room at the Treasury will be less efficient than appointing agents to deliver transactions due to poor skills within the Treasury and to the risks involved.

Furthermore, the framework empowers the role of the Treasury as professional cash manager in the public sector because it reinforces the connection between the Treasury and finance managers/officers at related units in regard to cash planning. The finance managers provide commitment data and billing data to the Treasury, the data being collected from both discretionary and non-discretionary transactions. In this way the Treasury can deliver sound cash management in terms of cash planning and cash mismatch, however, it is important to see the role of the Treasury in the public sector in terms of accelerating the development of other sectors, and it should avoid being trapped as an interest-seeker in regard to cash management.

In regard to budget implementation, the Treasury sets account classifications under the chart of accounts, however, in order to promote the roles of spending unit managers in managing resources it should provide spending unit managers with discretionary power in managing the details of account classifications. Therefore, the framework of PEM changes the level of the Treasury's control from the details of accounts classification as input controls to general account classifications. Moreover, it would be more effective if the Treasury approved payment orders that have been verified by finance officers at the level of spending units instead of requiring double verification. However, the framework opens up the possibility that finance managers/officers of spending units are authorized to approve payment orders instead of approval being given by the Treasury considering that they are under the functional

control of the Treasury. To reinforce budget execution the Treasury should continue providing cash advances if the banking system cannot provide cash advances in order to deliver contracts. It also relates to the nature of transactions whereby non-discretionary transactions should initially be recorded as cash advances because they need to be financed promptly. Furthermore, the Treasury should be responsible for training finance officers of spending units, and these include procurement officers, commitment officers, billing officers, payment order officers, and accounting officers. Although other agencies have control of procurement officers, nevertheless the framework emphasizes this function as a part of public financial management. Therefore the appointment of suitably qualified finance officers in spending units would strengthen the role of the Treasury.

The framework proposes that cash accounting should not be eliminated by the implementation of accrual accounting. This is consistent with the need to present cash flow statements in which the report conceptually is produced on a cash basis instead of an accrual basis. This arrangement buttresses the roles of the Treasury in presenting financial accountability reports in which cash flow statements are prepared by the Treasury using cash basis and budget realization reports prepared by finance managers at spending units using the accrual basis. Moreover, the framework strengthens the cash basis in recognizing cash transaction since cash is received or paid by either treasury agents or finance officers, all being under the Treasury's control. It is expected to solve the audit findings in debt management and unrecorded transactions under cash holder at the level of the operational unit. A further implication is that all cash holders should be responsible for presenting cash flow statements, this process enabling Treasury to more easily present general cash flow statements that inform operational, financing, and

investment activities. Data reconciliation between the Treasury and treasury agents will be another consequence that will buttress the reliability of financial reports.

Overall, the framework emphasizes the central role of the Treasury in controlling state cash. Where state cash is placed, and who keeps the cash, are matters that should be controlled by the Treasury. Cash management reflects vertical control arrangements in terms of a cascading approach from the Minister of Finance as the general treasurer, to cash advance holders, and to petty cash holders. However, it should not prevent the delegation of authority to others to approve cash transactions, for example, by a finance manager at a not-for-profit unit under line ministry. But the authority to approve transactions affects accounting in terms of recognizing and recording transactions. Moreover, it emphasizes a horizontal relationship between the Treasury and agents such as the Central Bank and operational banks. All this supposes the capability of the Treasury to control money, cash holders, and treasury agents, although in practice the roles of the Treasury will be affected by banking services as well as IT utilization.

Operational managers are to execute budgets and manage performance

In order to bolster the role of the Minister as COO, the framework emphasizes the roles of spending unit managers as proxies of the COO in order to focus on performance management in terms of the accomplishment of targeted outputs within units. In addition, the framework encompasses cascading performance from the Minister to senior civil servants, thence to operational managers, and finally to operational officers. It is consistent with cascading responsibility for outcomes and for both major and minor outputs. However, although each spending unit manager is responsible for performance, in implementation it is affected by the clear segregation of roles or functions between CFO and COO at the operational level. The segregation reflects the

horizontal control arrangements between spending units and treasury service officers, and between officers within spending units where they are responsible for executing budgets and delivering outputs. Therefore the interaction between operational and financial matters that occurs at the operational level should be governed clearly. Moreover, it incorporates the connection between performance and financial information whether for managerial or accountability purposes. Therefore the PEM framework in regard to budget execution affirms the system of vertical cascading performance, but the main focus is on assisting spending unit managers as proxies of the COO at the operational level where they are required to manage resources to deliver targeted outputs.

Finance managers and officers are to execute budgets and account for accrual transactions

Finance managers and officers are appointed at line ministries to assist treasury functions. At ministerial level, finance managers are appointed to coordinate operational-level finance officers and to link line ministries and the Treasury in all matters concerning finance. At the operational level the framework emphasizes the roles of finance officers of spending units, and in particular their responsibility for budget execution and for accrual accounting records. Therefore the main roles of finance managers/officers within line ministries should be focused on delivering budget execution in terms of procurement, billing, payment verification, and accrual accounting. In addition, they should also support the Treasury in preparing sound cash planning. However, the framework actually provides flexibility at operational levels regardless of whether the roles are delivered by one finance manager or by several finance officers. The focus is on ensuring sound internal controls within spending units while still considering existing human resources. However, there is still the possibility that non-cash matters may be handled by the Treasury if the spending unit does not have

adequate skilled human resources. Moreover, the framework asserts the recurrent activities of spending units which means that the roles of finance officers at spending units should focus on discretionary transactions that are recurrent, planned, in small amounts, and easily verified operationally. Other transactions should be controlled by the Ministry of Finance. Due to the importance of having qualified finance officers at spending units, the Treasury should provide training and certification, and only trained, skilled and accredited finance officers should be appointed.

A further implication is that the remuneration system for finance managers and officers within line ministries should be similar to their counterparts at the Treasury. It is legally consistent to promote the functional positions of finance officers, and although in the existing system it applies only to finance officers responsible for disbursing or receiving, it should cover all finance officers within line ministries. In addition, concerning the Article of Law that emphasizes the requirement for disbursing and receiving finance officers to present their accountability reports to the BPK, it should be interpreted as finance managers/officers being given authority to approve financial transactions. To illustrate, it can be applied to a finance manager at a not-for-profit unit who is given the authority instead of the cash holder. Concerning the regulation that states that prosecution may be launched for any fraud or error by a cash holder, it should be made clear that it applies equally to all finance officers whether in a line ministry or at the Treasury. Therefore, the implication of the proposed PEM framework to finance managers or officers at line ministries is to emphasize their role as functional assistants of the Ministry of Finance.

Segregation of transactions between discretionary and non-discretionary transactions means that non-discretionary transactions are not delegated to finance managers or officers at line ministries; they remain under the control of the Ministry of

Finance. In order to reinforce mechanisms for checks and balances, the framework stipulates that non-cash aspects of these transactions are managed by others outside the Treasury. It emphasizes the financial roles of ministerial officers responsible for tax and non-tax matters and for non-discretionary transactions. They need to focus on budget execution and accrual accounting while supporting the Treasury in providing cash planning since it is these officers who are directly responsible for recording commitments and billing.

It is important to note that the framework clarifies the concept of reporting entities in which each entity should be headed by a CEO instead of a COO. If a line ministry is established as an independent entity it has autonomy to manage cash and other resources. Overall, the proposed framework presents a big picture of financial management which entails collaboration between key agencies, such as the Treasury, and participants such as finance managers in the Ministry of Finance and finance managers at line ministries; all should work together to deliver sound financial management. The existing authority of finance managers or officers reflects the level of control that is set for institutional arrangements and control arrangements. It should be adjusted based on the capability of institutions to perform their functions. Therefore the framework provides consistency that covers all main concepts of the PEM reform and is expected to solve persistent problems in the PEM system that existed for five years or more following the reform.

APPENDIX 15 GETTING THE CHANGING CONTROL ARRANGEMENTS RIGHT

- Know the roles of principal and agent first. The relation between key actors is affected by the capability of principal to control and the integrity of agent to provide assurance in terms of the capability to deliver contract, having good performance, and presenting good faith and accountability. The assessment of key actors is important when reform is launched. But, poor principal-agent relationship can exist at this point.
- Empower the roles of principal and agent or renegotiate the contract between principal and agent. To achieve the expected control arrangements, the empowerment of key actors is imperative. But negatively it tends to empower the capability of finance ministry only instead of creating the balance of capability between key actors. Moreover, to a lesser extent the renegotiation of contract in terms of enhancing performance increases the level of cost as well.
- Appoint more than one agent. More agents can increase effectiveness in terms of providing comparison between agents' performance. But consequently it needs more effort to control. In the public sectors it is unlikely that customer has options to choose similar service by different agent in one location; more agents are usually appointed to deliver services in different areas or different types of products or services. In addition, poor standardization can create different services.
- Segregate the authorities into several agents sequentially. It can enhance check and balance mechanism but the segregation of roles among agents needs more human resources as agents and also equal capability of agents. Poor consideration concerning these matters in segregating authority tends to create double control.
- Appoint another agent outside entity particularly to support services. It supports the entity to exercise core functions. But it needs the firm stance of principal to manage agent which sometimes it lacks due to poor capability of principal to control. In addition, negatively the appointment of external agent tends to not diminish the size of internal agent in terms of structures and human resources.
- Appoint another agent as internal auditor or external auditor to control agent delivering services. Auditor is essential to control activity that is poorly controlled by internal agents. Auditor presumably has more expertise and time to control.

- Set more control before the execution of contract/service, ensure the implementation, and release flexibility. It is applied particularly to recurrent/common/ discretionary transactions because it can be standardized, predicted, and under the capability of internal unit to control. But it needs the ability of principal or other agent to set particular *ex-ante* control.
- Release flexibility and set more control after the execution whether by another agent within entity or other agent from outside entity. The appointment of external agent is appropriated when it needs specific skills and knowledge to control/supervise/verify controlled unit; it is more applied to non-recurrent/uncommon/emergency/non-discretionary transactions because it is usually un-standardized, unpredicted, beyond the capability of internal unit to control.
- Set different flexibility based on the capability of agent to deliver performance, the capability of principal to control, the level of urgency of contract. But, the principal has to consider costs and benefits on certain control arrangements. In addition, negatively the principal tends to set similar control arrangements to all agents without considering each condition. When flexibility is given without adequate prior control, it tends to be difficult to take it back.

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