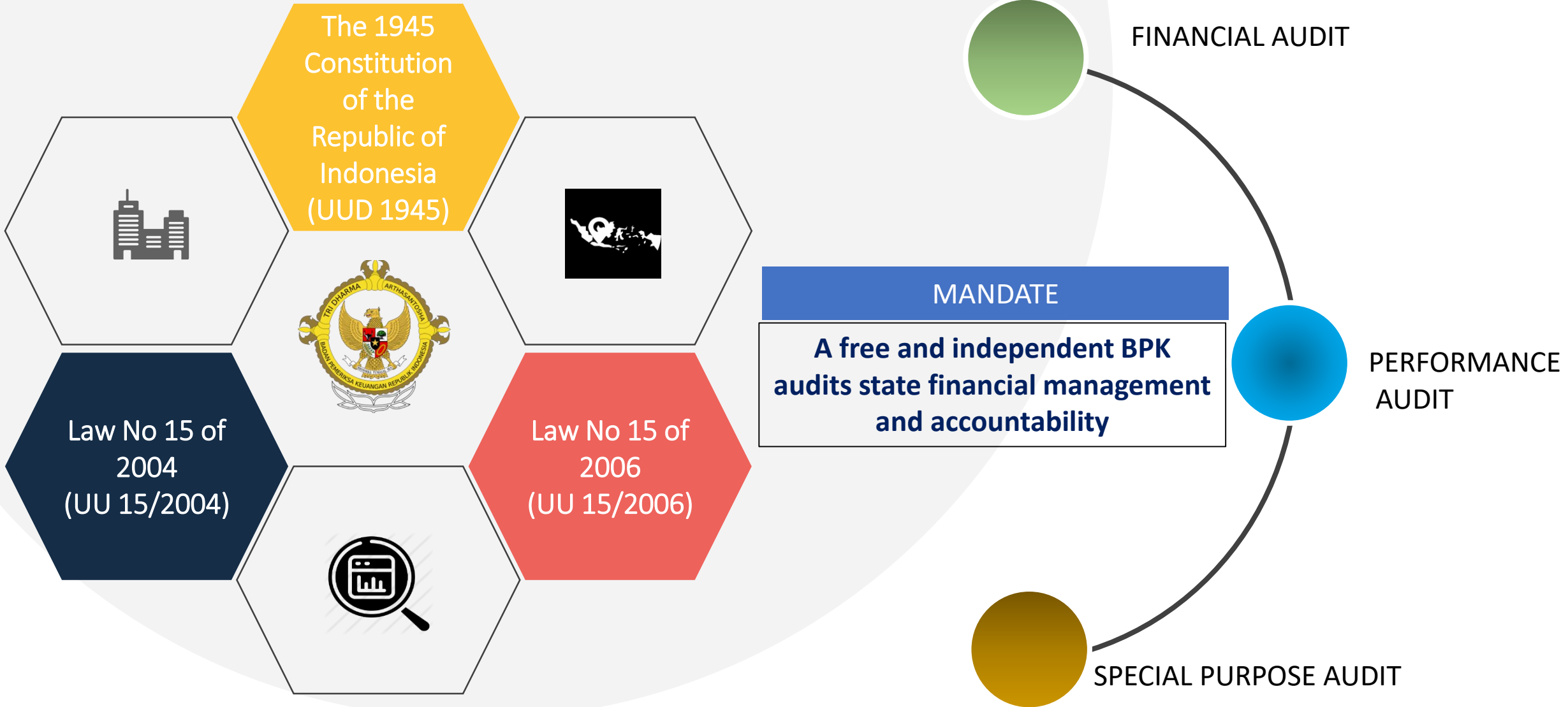




THE ROLE OF EXTERNAL AUDIT IN PROMOTING BUDGET CREDIBILITY

LESSONS LEARNED: THE EXPERIENCES OF
THE AUDIT BOARD OF THE REPUBLIC OF INDONESIA
(BPK)

AUDIT MANDATE



AUDIT TO PROMOTE STATE BUDGET CREDIBILITY

Performance 2015:

- State Budget Preparation



Performance 2018:

- Quality Expenditure Management using Performance-Based Budgeting Framework

Resources to develop audit criteria:

- Applicable laws and regulations;
- Relevant best practices; and
- Focus Group Discussion with experts
- IMF Fiscal Transparency Code

AUDIT OF STATE BUDGET PREPARATION 2015



Audit objectives aimed to assess effectiveness of state budget/revised state budget preparation and enactment to finance government work plan. This focused on 4 targets:

MACRO ECONOMIC ASSUMPTIONS

The computation and consideration to macro assumptions as basic posture to prepare state budget was unverifiable.

REVENUE BUDGET PREPARATION

- Government lacked consideration to include all tax policy impacts;
- Oil and gas Non-Tax Revenue did not consider reliable oil and gas lifting target.



REVISED STATE BUDGET PROCESS

Ministry of Finance did not set a system for revised state budget.

EXPENDITURE BUDGET PREPARATION

- Preparation to set Indicative Ceiling had not considered performance of ministry/agency in previous years;
- Some ministry/agency expenditure budgets were not supported with solid output.

AUDIT OF QUALITY EXPENDITURE MANAGEMENT 2018

The audit objectives were to assess effectiveness of quality expenditure management.

They focused on 3 targets:



EXPENDITURE BUDGET PLANNING

- Government had no specific and explicit policy to set definition as well as indicators of quality expenditure.
- Management of Performance-Based Budgeting had no performance indicator cascading mechanism.



EXPENDITURE BUDGET EXECUTION

- Sharing data processes between planning information system and budgeting information system were less than optimum.
- Some budget executions were not timely.
- Some outputs of expenditure budget executions were not as planned.



EXPENDITURE MONITORING AND EVALUATION

- Monitoring and evaluation information system for execution and budgeting were not sufficient to assure a consistent data between budget ceiling and budget realization;
- Some national priority targets of 2017 were not reported.

AUDIT FOLLOW UP



Performance Audit of State Budget Preparation

The government followed up audit recommendations.

Some of the follow ups included:

1. Issuing Government Regulation No 17 of 2017 (PP 17/2017) to align between planning and budgeting;
2. Considering tax policies while budgeting for tax revenue.



Performance Audit of Quality Expenditure Management

The government followed up audit recommendations.

Some of the follow ups included:

1. Drafting quality expenditure definition;
2. Improving budget execution performance indicator;
3. Improving performance evaluation on budgeting.

LESSONS LEARNED



1

Auditing budgets can be conducted on entities with planning and budgeting authorities simultaneous while audit samples are taken from significant ministries/agencies.

2

Measuring budget performance is not merely based on accuracy and precision of revenue and expenditure targets, but measuring budget performance needs to include broader indicators such as entity work plan.

3

Budget credibility may not be assessed adequately because of weak budgeting documentation involving the executive and the house of representatives.

RECOMMENDATIONS FOR SAIs

SAIs may jointly improve organizational capacity and professional competence in some areas, such as:



01

Fiscal policy and macro economic policy.

02

Budget credibility measurement using Public Expenditure and Financial Accountability (PEFA) framework, IMF Fiscal Transparency Code, as well as Fiscal Transparency Evaluation.

03

Economic and financial analytical data.

04

Forecasting for future trends such as, computational assumption analysis on economic growth, inflation, and long-term fiscal sustainability.



**THANK
YOU**