



MCC INDONESIA CONTROL OF CORRUPTION PROJECT:

ASSESSMENT OF BUDGET ACTIVITY CONSULTANT REPORT

1-30 JUNE 2007

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EXECUTIVE SUMMARY

This consultant report for the MCC Indonesia Control of Corruption Project (MCC ICCP) is based on very limited access to key Supreme Court staff during the period 1-30 June 2007. Much of the information described in the body of the report is based on comments made by Judiciary Officials during various meetings attended and discussions with Ms. Egi Sutjiati, MCC ICCP Finance and Budget Expert. Annex I is a listing of the meetings attended and the subject matter covered.

The observations presented in this consultant report need to be verified and supported by detailed business process maps before an assessment can be completed and recommendations presented for discussion with the leadership of the Supreme Court. Annex II is an initial listing of the business process maps required to support the finance and budget assessment.

In addition, key source documents must be secured from the Supreme Court to assist in developing the business process maps and to evaluate the current state of financial management in the Indonesian Judiciary. Annex III is a listing of key finance and budget documents I have requested that should provide insight into the current state of financial management.

In preparation for the assignment the MCC ICCP project office supplied me with a number background documents to assist in gaining an understanding of the current state of budget processes. Annex IV is a listing of documents reviewed during the early stages of this assignment. Annex V and VI are lists of questions to the Ministry of Finance and Finance Bureau, respectively, Annex VII is a sample of budget training topics, which Annex VIII are meeting notes from key meetings held during the consultancy.

ASSESSMENT OF SUPREME COURT BUDGET PROCESSES

Budget Based Strategic Planning

The Supreme Court adopted the following broad strategic goals for the judiciary:

- Uphold justice and satisfy the sense of justice of the public
- Create an autonomous, independent judiciary
- Improve public access to judicial services
- Improve the quality of the judicial process
- Create effective, efficient, dignified judicial institutions
- Strengthen neutrality and transparency

The next step in the budget-based strategic planning process is for the Supreme Court to determine the budget structure it intends to utilize in managing the finance and budget processes in the Judiciary. This requires defining the Judiciary's programs and sub programs that will be used to formulate and present the budget to decision makers both internally in the Judiciary and externally in the Executive and Legislative Branches of Government. Along with identifying the programs and sub programs, the Supreme Court should establish performance measures and standards for the courts in developing their budgets. The performance measures and standards should provide a mechanism for measuring court performance in achieving the broad policy objectives adopted by the Supreme Court.

In order to promote the concept of budget-based strategic planning at the Supreme Court, the MCC ICCP project office is considering tailoring a one or two day workshop for high level Supreme Court officials with the objective of identifying the budget management structure, major programs and subprograms and performance/measures for the programs and sub programs.

The following are potential budget management structures for consideration by the Supreme Court:

National Program Structure	Geographic Program Structure
General Justice District Courts Courts of Appeals Supreme Court	District Courts General Justice Religious Justice Military Justice Commercial Justice Anti-Corruption
Religious Justice District Courts Courts of Appeals Supreme Court	Courts of Appeals General Justice Religious Justice Military Justice Commercial Justice Anti-Corruption
Military Justice District Courts Courts of Appeals Supreme Court	Supreme Court General Justice Religious Justice Military Justice Commercial Justice Anti-Corruption

National Program Structure	Geographic Program Structure
Commercial Justice District Courts Courts of Appeals Supreme Court	
Anti-Corruption Justice District Courts Courts of Appeals Supreme Court	

Related to the above discussion, the In-ACCE project conducted a two day workshop on the subject of Court Budgeting and Strategic Planning for members of the Commercial and Anti-Corruption Courts. The workshop was also attended by individuals from the Supreme Court. The workshop was well received by the participants.

Budget Formulation

There does not appear to be any budget guidance issued by the Supreme Court to assist the courts and other judiciary budget users in formulating their budget estimates. Based on an initial meeting with the Planning Bureau of the Supreme Court, it appears that the current budget formulation process begins with the submission of budget estimates from all courts throughout the country. The court budgets are prepared in a standard format and are faxed or mailed to the Planning Bureau for consolidation. The format is essentially a line item of expenditure approach based on the prior year budget approved amounts.

My initial reaction to the current ‘bottom up’ approach that appears to be reflected in the current formulation process may not be the most efficient and practical approach for budget formulation in a judiciary size of the Indonesian court system. However, this was the approach recommended by a previous group ‘IMF Dutch Technical Assistance-Account’ and published in the [Blueprint for the Reform of the Supreme Court of Indonesia, 2003](#). A more practical model may be the budget formulation approach employed by the Federal Court System in the United States. The U.S. Federal Courts are similar in size in terms of numbers of budget cost centers and court staff. The U.S. Federal Courts have 440 budget cost centers and 27,000 staff compared with the Indonesian Judiciary consisting of approximately 800 budget cost centers and a similar number of courts staff.

Budget Review and Approval

Based on the sheer volume of the number of individual budgets received by the Planning and Organization Bureau, it is apparent that little or no analysis of the submissions is carried out by the Supreme Court. Budgets are prepared by at least 800 individual courts. In addition, each budget has multiple line items. This certainly adds to the volume of information collected for review. A more accurate number of cost centers and budget line items will need to be developed on succeeding visits to Indonesia. A potential source of this information in terms of cost centers could be developed as part of the Asset Inventory project tasks.

It is my understanding that all the budgets from each courts are forwarded to the Ministry of Finance for final review and approval. Again, the sheer volume of the data would preclude a detailed analysis of the budgets on the part of the Ministry of

Finance. Preliminary indications are that the Ministry essentially approves budget levels that are tied to prior year approved budget amounts, plus a flat percentage increase based on national economic forecasts, as opposed to a detailed analysis of the budget submissions from the individual courts.

To develop a more comprehensive insight into the budget review and approval process, I provided Ms. Egi Sutjiati, MCC ICCP Finance and Budget Expert with a list of questions for written response from the Government's Ministry of Finance (Annex V) and the Supreme Court's Financial Bureau (Annex VI).

Automation Support of the Budget Process

The Planning and Organization Bureau uses a standard software package developed for use by the Government's Bureau of Finance for collecting budget estimates from the courts. This package is used by all entities in the government. We requested copies of the input screens and output reports and are in the process of securing the information. We were informed that 80 percent of the courts were trained on the automated package developed by the Ministry of Finance and the remaining courts were using an Excel spreadsheet to prepare their budgets.

During my stay in Jakarta, the Supreme Court Reform Team invited Ms. Sutjiati and I to a meeting with the group that conducted an audit of the Court's software system, SIMARI. This suite of software modules are designed to enhance court administration in the Judiciary. One of the modules in the SIMARI suite is a financial module that is intended to support the budget formulation process in the judiciary. The auditors reported that the financial software was not operational.

We were hoping to visit with the software developer of the financial module to determine the status of the system. Normally a system developer would prepare detailed processes maps of the business operation the software was intended to support. We were informed by the auditors that the developer did not prepare detailed business process maps but used a different approach in designing the software.

One of the requirements of the MCC ICCP budget activity is to determine the modifications needed to the existing automated budget system to reflect the changes in the finance and budget processes adopted by the Supreme Court. This may not be possible since it appears that the finance module in SIMARI is not operational. An approach may be to provide the software developer, JAVASOFT, with the specifications of a finance and budget module that reflects the finance and budget processes adopted for implementation by the Supreme Court for their development.

Budget Execution Process

Budget Allocation

The budgets for each of the courts are approved individually by the Ministry of Finance. The budget allocation is approved by line item of expenditures for each of the courts. We were not able to schedule a meeting with the individual or individuals responsible for examining and approving the budgets for the courts at the Ministry of Finance. It was our intent to determine the sophistication and approach employed by the Ministry in evaluating the budgets from the courts. Anecdotally, we were

informed that the Ministry routinely approved the court's budget based on the prior year budget allocation.

Funds Control

Funds control is defined as a system that is put in place to ensure that funds are obligated for designated purposes, within allowable amounts and within a specified time period.

The Ministry of Finance exercises budget control by limiting expenditures to the amount approved for each line item of expenditure. The courts do not have the authority to reprogram funds between line items without the prior approval of the Ministry of Finance. This authority is exercised by the regional Treasury Office of the Ministry of Finance. There does not appear to be any additional fund controls imposed by the Supreme Court on the spending of the lower court budgets.

ASSESSMENT OF FINANCIAL DATA QUALITY

The time available during this assignment was not adequate to assess the quality AND availability of the financial data available to the budget staff. The following information was secured during a meeting with the Financial Bureau staff.

Internal Budget Reporting

The courts are required to report on utilization of their budgets through the submission of a semi-annual budget realization report that is sent to the Supreme Court Finance Bureau. The report has columns for the current budget, expenditures through the reporting period, expenditure levels above or below the approved budget and column that computes the percent of budget utilization. This is the report that the court uses to monitor financial progress compared to the approved budget allocation. We could not determine whether this report was manually prepared or part of an automated accounting system.

There also appears to be a report generated to track performance. A blank report was provided by the staff from the Ministry of Finance the appeared to set by type of expenditure, output indicators and identifies the measurement unit and percent achieves by quarter. We did not have enough time to follow-up on the specific indicators and the measurement unit established.

External Budget Reporting

It appears that the individual reports from the courts are consolidated and summarized for submission to the Ministry of Finance on a semi-annual basis.

Voucher Processing

The individual court prepares a manual voucher that directs the State Treasurer to make payment to service providers. It contains the appropriate accounting information and identifies the vendor's bank account information. It appears that the line item fund control is exercised by the regional State Treasurer. The regional State Treasurer maintains a record of the budget allocation for each entity and monitors budget

utilization by line item and will not process a payment that exceeds the budget line item allocation.

EVALUATE CURRENT TRAINING SYSTEMS AND PROCESSES

We explored the current training provided court budget and finance personnel in a meeting with the Secretary of the Board Research and Development and Training and Education. He informed us that training administered by the Board was limited to programs of five days or more. Training programs of less than five days was the responsibility of the host organizations. However, the Board was planning to administer all training programs in the future. Based on discussions with the Finance Bureau, the only training provided to budget and finance court staff was in the use of the automated budget formulation software developed by the Ministry of Finance.

The Secretary of the Board did not have any concrete curriculum developed for budget and finance court personnel. I left with the Secretary a copy of the training curriculum for budget analysts developed by the U.S. National Association of State Budget Officers. This was provided as an example of the training the Board may want to consider when developing a training program for budget and finance court staff. This area will need to be developed during follow-on visits to Indonesia. Annex VII is a copy of the Budget Analyst Curriculum shared with the Secretary of the Board.

CONSULT WITH LOCAL PARTNER ORGANIZATIONS ON BUDGET TRAINING

The only contact with local partner organizations was meeting held with the In-ACCE project office and the Asia Foundation. I would not consider these two organizations particularly helpful in terms of consulting and coordinating as to the means and methods for providing remedial training and advanced budget training to appropriate court staff. During the meetings we did state that we would keep their organizations informed as to the direction and progress of our project office efforts.

Contacts with all other local partners will be a focus for the next assignment in Indonesia on this budget activity.

ASSESS CURRENT BUDGET PLANNING AND ADVOCACY PROCESSES

The assessment has not progressed to the point of evaluating the current budget advocacy program. The assessment of the budget advocacy program will be undertaken in future visits to Indonesia. This is one of the areas that the MCC ICCP local sub-contractor will be preparing process maps of the existing current state.

DISCUSSIONS WITH SUPREME COURT REGARDING NEW BUDGET PLANNING AND EXECUTION PROCESSES

The meetings and discussions with key Supreme Court personnel will be a continuing effort as the assessment progresses and draft recommendations are being formulated. Annex I lists the meetings attended during this first assignment, Annex VIII provides notes of several key meetings.

ANNEX I – MEETINGS ATTENDED

Date	Organization Represented	Subject Matter Covered
6/4/2007	Bureau of Officialdom	Kick-off meeting for HR Tasks in Component 1
6/4/2007	In-ACCE	Description of In-ACCE project for information sharing
6/7/2007	Director General of the Board of General Justice and Staff	Kick-off meeting to discuss the internal operations of the Board of General Justice
6/7/2007	Judicial Reform Team	Discussion of HR and Finance and Budget Tasks and Objectives
6/13/2007	Asia Foundation	Understand the work of the Asia Foundation and its relation to Chemonics project
6/15/2007	KPK and SC	Introduction and project issues
6/18/2007	Head of Planning & Finance Division -	Introduction and kick off meeting & discussion of budget process in Board of General Justice
6/19/2007	Reform Team	Discuss project issues in ethics training and asset management
6/19/2007	Board of Administration Affairs, General, Religious and Military Justice,	Introduction of SC counterparts related to the project.
6/20/2007	Planning and Organization Bureau	Information gathering on the budget process
6/20/2007	IT audit group and Reform Team	Determine if detailed process maps were developed in support of the budget software programmed by JAVASOFT.
6/25/07 & 6/26/07	Trainees from the Commercial, Anticorruption Courts and Supreme Courts	In-ACCE training on Strategic Planning and budgeting
6/27/2007	Board of Research and Development and Training and Education and Finance Bureau	Discuss project plans for the finance and budget activity and collect information on training available to Financial Management Staff in the Judiciary
6/29/2007	Finance Bureau	Discuss project plans for the finance and budget activity and collect information on role of the Finance Bureau in budget process and collect budget related reports.

ANNEX II - BUSINESS PROCESS MAPPING

- Judiciary budget formulation and approval process map (From issuance of Ministry of Finance and SC budget guidelines to delivery of the Budget to the Ministry of Finance) (including time line of critical dates and explanation to support the process map). **(The above applies to all process maps).**
- Recommendations for improvements in above process.
- Evaluation of the automated budget formulation system currently in use and the modifications necessary to implement the recommended changes to the budget formulation process adopted by the SC.
- Process map of the budget review and approval process of the Judiciary's budget by the executive and legislative branches.
- Recommend procedures, formats and timing for the release of budget information to the public.
- Business process map of budget execution in the Judiciary from the budget allocation process including the reports and other financial management tools used to control expenditures and track progress against budget plans.
- Recommendations for improvements in above process.
- Business process map of the internal and external reporting of progress compared with budget plan.
- Discussion of the financial limitations on the use of budgets (reprogramming) imposed internally by SC and externally by the executive and legislative branches.
- Recommended changes to the limitations.

ANNEX III - REQUESTED KEY FINANCE AND BUDGET DOCUMENTS

Information Areas of Interest	Documents Required	Use by Consultant
Determine the status of the recommendations proposed in the "Blueprint for the Reform of the Supreme Court of Indonesia" 2003 Chapter VII Funding and Support Infrastructure.	Report on progress to date regarding the recommendations in the document.	Understand the recommendations that need attention.
Organizations responsible for managing Financial Management Process in the SC	Finance and Budget Organization Chart/Charts with offices and staff identified	Background Info and schedule meetings.
Strategic Plan for the Judiciary	Copy/copies of current Strategic Plans in the Judiciary and identifying the organizations responsible for developing strategic plans for the Courts	Background Information and schedule meetings and perform analysis - to determine link to budget process
Budget Process Internal in the Judiciary		
Budget Calendar of Events	Copy of published budget calendar of events	Determine if document is prepared. Prepare Budget Calendar based on current state. Compare with best practices
Budget guidance received by the courts and internal guidance issued to budget formulators.	Copies of budget guidance	Evaluate content of guidance and compare with best practice model
Budget Formulation process	Published Standard Operating Procedures - Internal in the Judiciary and copies of external SOP.	Flow Chart Process and compare to best practice model
Budget Justification	Copy of the Official Budget for the Judiciary	Analysis of budget line items and justification material to determine adequacy of content. Compare with best practices.
Budget Presentation	List of Budget presenters internally in the Judiciary and at meetings with the executive and legislative branches.	Determine the organization level of court officials that present and defend the budget for the Judiciary.
Budget Advocacy Program	Description of the current budget advocacy program	Analysis of current program and perform Gap analysis with best practice model

Information Areas of Interest	Documents Required	Use by Consultant
Judiciary's Automated budget preparation software	Copies of input screens and output reports. Determine who is responsible for data input by organization and individual responsible.	Analysis of input screens and output reports/schedules to determine the modifications necessary to support changes in the budget process adopted for implementation in the Judiciary
Budget Execution	Published Standard Operating Procedures - Flow chart the current process both internal in the Judiciary and within the government.	Flow Chart Process and compare to best practice model
Budget Controls	Published Standard Operating Procedures - published budget controls i.e., position ceilings, financial limits by budget line item. Reprogramming authorities, etc. Identify the organization responsible for monitoring budget execution and identify financial reports used to monitor	Analysis of the adequacy of the funds control system, flow chart process and compare with best practice model
Accounting		
Accounting Calendar of Events	Copy a published accounting calendar of events	Determine if document is prepared. Prepare Accounting Calendar based on current state. Compare with best practices
Accounting Chart of Accounts	Copy of the court's chart of accounts	Determine the accounting structure of the courts.
Accounting Process	Published Standard Operating Procedures - Flow Chart of the payment process for salaries, benefits, operating expenses, etc. identify the organization and people responsible for the function.	Analysis - Flow chart the budget expenditure process and compare with best practice model.
Accounting Reports	Copies of Budget Management reports. Identify who receives the reports and the use they make of the information.	Analysis - Perform gap analysis between current state and the reports necessary to operate under a modified budget structure
Audit	Copy of internal audit guidelines and processes. Identify the organizations and people responsible for the function.	Understand the internal and external audit process

Information Areas of Interest	Documents Required	Use by Consultant
Training Program	Copy of the Finance and Budget training curriculum and description of the course modules. Identify who has been trained.	Analysis - understand current training curriculum and perform a gap analysis of training necessary to support a modified budget and accounting processes
Financial Management Manual	Copy of all financial and budget manuals that exist. Identify manuals that should be developed.	Collect manuals and SOP governing finance and budget operations

ANNEX IV - LIST OF DOCUMENTS REVIEWED

LEGISLATION

2003 Law on State Finances

REPORTS AND RELATED DOCUMENTS

- “Policy Paper on Court’s Financial Management Reform” The Supreme Court of Indonesia, 2003
- “Blueprint for the Reform of the Supreme Court of Indonesia” The Supreme Court of Indonesia, 2003
- “A report “Blueprint Implementation Strategy – Indonesia” Prepared by the In-ACCE project
- In-ACCE Annual Work Plan, 1 August 2006 - 31 July 2007
- “Blueprint and Action Plan for the Development Commercial Court” 2004
- “Blueprint and Action Plan for the Establishment of Anticorruption Court” 2004
- Draft Training Course prepared by the In-ACCE project office Trial Court Budgeting and Strategic Planning”
- Bench Book - Book III “Guidelines for Organization and Administration of the Supreme Court,” 2006
- Organization Charts for the offices in the Supreme Court

ANNEX V - QUESTIONS FOR THE MINISTRY OF FINANCE

1. Describe the role of the Ministry of Finance (MOF) in Budget Development and Budget Monitoring and Control.
2. What is the relationship between the MOF and the Ministry of Human resources regarding the budget formulation and approval process?
3. Are there any other organizations in the Government that plans a role in the budget review and approval process of the Judiciary's budget?
4. Legislation governing the budget formulation process.
5. Has the Judiciary shared its strategic planning document with the MOF?
6. Has the MOF developed a budget calendar of events or is it embedded in the Finance and Budget Law?
7. How does the MOF determine the level of resources to allocate to the Judiciary?
8. Are the budgets for each judicial entity submitted to the MOF?
9. Does the MOF allocate budget resources to each entity in the Judiciary?
10. What guidance is prepared by the MOF for the Judiciary to follow in budget preparation? Get copy if available.
11. Is the Judiciary's budget reviewed by a program/activity structure? Ex. District Courts, Courts of Appeals?
12. Is there a discussion of workload presented in the budget?
13. Are performance outcomes discussed in the in the budget presentation?
14. Get copy of the latest budget submission.
15. Who in the SC presents the Judiciary's budget to the MOF?
16. Is there feedback from the MOF on decisions taken regarding the budget for the courts?
17. Who presents and defends the Judiciary's budget at the legislative level?
18. What legislative branch organization reviews the Judiciary's Budget request?
19. Does the SC have the opportunity to discuss the budget with the legislative branch? If so, who participates in the discussions?
21. Are there actually formal hearings where the budget is presented?
22. What automation package is used by the MOF for budget formulation? Get copy of the budget screens and reports of the budget software package.
20. Do all government organizations use the same software package?
21. What accounting system is used to determine progress against budget?
22. What controls are in place to limit budget utilization?
23. Who is responsible for monitoring progress against plan at the MOF?

ANNEX VI - QUESTIONS FOR THE FINANCE BUREAU

1. Describe the role of the Finance Bureau in Budget Development and Budget Monitoring and Control.
2. Legislation governing the budget formulation process.
3. Has the Judiciary prepared a strategic planning document?
4. If so, does the budget support the goals and objectives of the strategic plan?
5. Has the SC developed a budget calendar of events?
6. Does the SC consolidate the budget for the entire Judiciary?
7. What guidance is prepared for the courts to follow in budget preparation? Get copy if available.
8. Are the budgets for each judicial entity submitted to the MOF?
9. Is the Budget summarized?
10. Is the budget presented in a program/activity structure? Ex. District Courts, Courts of Appeals?
11. Is there a discussion of workload presented in the budget?
12. Are performance outcomes discussed in the in the budget presentation?
13. Get copy of the latest budget submission.
14. Who in the CS presents the Judiciary's budget to the MOF?
15. Is there feedback from the MOF on decisions taken regarding the budget for the courts?
16. Who presents and defends the Judiciary's budget at the legislative level?
17. What legislative branch organization reviews the Judiciary's Budget request?
18. Does the SC have the opportunity to discuss the budget with the legislative branch? If so, who participates in the discussions?
19. Are there actually formal hearings where the budget is presented?
20. Develop an understanding of the politics of the judiciary's budget approval process
21. What is the history of the funding for the courts year to year?
22. What automation package is used by the courts for budget formulation? Get copy of the budget screens and reports of the budget software package.
23. What accounting system is used to determine progress against budget?
24. What controls are in place to limit budget utilization?
25. Who is responsible for monitoring progress against plan?
26. Need to flow chart the entire financial management process in detail?
27. Training curriculum – Internal training in the organization, get copy?
28. Are records kept of the training attended by the financial staff?
29. Is training conducted in-house or at a local University?
30. What is the extent of the formal training of the financial staff?
31. Do any have financial related degrees from university level?
32. What training does the staff feel they need?

ANNEX VII - BUDGET ANALYST TRAINING CURRICULUM

Budget Analyst Training Program

INTRODUCTION

OVERVIEW OF STATE BUDGETING

MODULE 1: FUNDAMENTALS OF BUDGETING

MODULE 2: OPERATING BUDGETS

MODULE 3: FUNDING STATE SERVICES

MODULE 4: ECONOMICS AND THE STATE BUDGET

MODULE 5: REVENUE AND EXPENDITURE ANALYSIS AND FORECASTING

MODULE 6: ANALYTICAL METHODS FOR BUDGET ANALYSIS

MODULE 7: DECISION MAKING IN THE BUDGET PROCESS

MODULE 8: CAPITAL BUDGETS

MODULE 9: DEBT FINANCING

MODULE 10: THE FEDERAL BUDGET

MODULE 11: COMMUNICATING FISCAL ISSUES

MODULE 12: ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

MODULE 13: INTERPERSONAL SKILLS FOR BUDGET ANALYSTS
